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Runhua Living Service Group Holdings Limited

润华生活服务集团控股有限公司

(a company incorporated in the Cayman Islands with limited liability)

(Stock Code: 2455)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

The board (the “**Board**”) of directors (the “**Directors**”) of Runhua Living Service Group Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2021. The annual results of the Group for the Reporting Period have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and approved by the Board on 30 March 2023.

Certain amount and percentage figure included in this announcement have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

FINANCIAL HIGHLIGHTS

- (a) Revenue for the Reporting Period amounted to RMB692.0 million, representing an increase of 15.1% as compared with 2021.
- (b) Gross profit for the Reporting Period amounted to RMB122.2 million, representing an increase of 7.0% as compared with 2021.
- (c) Gross profit margin for the Reporting Period was 17.7%, representing a decrease of 1.3 percentage points as compared with 2021.
- (d) Profit for the Reporting Period amounted to RMB40.4 million, representing a decrease of 9.2% as compared with 2021.
- (e) For the Reporting Period, basic earnings per share of the Group amounted to RMB0.18, representing a decrease of 10.0% as compared with 2021.
- (f) The Company was successfully listed on the Main Board of the Stock Exchange on 17 January 2023. After deducting the listing expenses, the net proceeds raised from the listing were approximately HK\$89.9 million.
- (g) The Board does not recommend the payment of final dividends in respect of the Reporting Period.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	4	691,999	601,298
Cost of services		<u>(569,849)</u>	<u>(487,156)</u>
Gross profit		122,150	114,142
Other income and gains and expenses, net	4	6,615	7,292
Selling and distribution expenses		(5,816)	(4,703)
Administrative expenses		(68,514)	(54,528)
Finance costs	6	(8,541)	(11,299)
Share of profit of an associate		<u>5,758</u>	<u>5,540</u>
PROFIT BEFORE TAX	5	51,652	56,444
Income tax expense	7	<u>(11,271)</u>	<u>(11,993)</u>
PROFIT FOR THE YEAR		40,381	44,451
Attributable to:			
Owners of the parent		40,167	44,300
Non-controlling interests		<u>214</u>	<u>151</u>
		<u>40,381</u>	<u>44,451</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	<u>RMB0.18</u>	<u>RMB0.20</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	<i>Notes</i>	2022	2021
		RMB'000	RMB'000
PROFIT FOR THE YEAR		<u>40,381</u>	<u>44,451</u>
OTHER COMPREHENSIVE INCOME		<u>–</u>	<u>–</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>40,381</u>	<u>44,451</u>
Attributable to:			
Owners of the parent		40,167	44,300
Non-controlling interests		<u>214</u>	<u>151</u>
		<u>40,381</u>	<u>44,451</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property and equipment		19,211	18,464
Investment properties	10	107,129	63,904
Right-of-use assets		–	1,285
Other intangible assets		2,618	2,995
Investments in an associate		133,432	127,674
Other receivables and other assets		2,326	–
Deferred tax assets		8,365	3,260
Total non-current assets		273,081	217,582
CURRENT ASSETS			
Inventories		124	123
Trade receivables	11	150,839	85,028
Contract assets		25,103	8,729
Prepayments, other receivables and other assets		21,114	21,344
Financial assets at amortised cost		–	9,900
Restricted deposits		5,482	11,894
Cash and cash equivalents		64,664	112,080
Total current assets		267,326	249,098
CURRENT LIABILITIES			
Trade payables	12	41,376	42,696
Other payables and accruals		105,747	106,897
Interest-bearing bank borrowings		33,140	41,140
Lease liabilities		16,899	6,718
Tax payable		14,071	7,592
Total current liabilities		211,233	205,043
NET CURRENT ASSETS		56,093	44,055
TOTAL ASSETS LESS CURRENT LIABILITIES		329,174	261,637

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2022

	<i>Notes</i>	2022	2021
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		61,540	55,680
Lease liabilities		66,756	47,638
Deferred tax liabilities		<u>51</u>	<u>40</u>
Total non-current liabilities		<u>128,347</u>	<u>103,358</u>
Net assets		<u>200,827</u>	<u>158,279</u>
EQUITY			
Equity attributable to owners of the parent			
Paid-in capital		1	1
Reserves		<u>200,449</u>	<u>158,115</u>
		200,450	158,116
Non-controlling interests		<u>377</u>	<u>163</u>
Total equity		<u>200,827</u>	<u>158,279</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION

Runhua Living Service Group Holdings Limited (formerly known as Runhua Intelligence Health Service Co., Ltd. and Runhua Property Technology Development Inc, respectively) (the “**Company**”) is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Act of the Cayman Islands. The registered office address of the Company is Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands. The principal place of business is located at 6th Floor, Building No. 1 Lemeng Center, No. 28988 Jingshi Road, Jinan City, Shandong Province, the People’s Republic of China (the “**PRC**”).

The Company is an investment holding company. The Company’s subsidiaries were involved in the provision of property management services, property engineering services, landscape construction services, leasing services from investment property and other services in the PRC.

The Company’s shares were listed on the main board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 17 January 2023.

In the opinion of the director of the Company, the ultimate holding company of the Company is Springrain Investment Limited, a limited liability company incorporated in the British Virgin Islands (“**BVI**”).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from 1 January 2022 together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the consolidated financial statements throughout the reporting period. They have been prepared under the historical cost convention, except for wealth management products which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (continued)

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

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

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

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

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

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

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not adopted the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 17	Insurance Contracts ^{1,5}
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information ⁶
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the “2020 Amendments”) ^{2,4}
Amendments to HKAS 1	Non-current Liabilities with Covenants (the “2022 Amendments”) ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction ¹

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

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

⁶ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 1 Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments become effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has recognised temporary differences relating to right-of-use assets and lease liabilities on a net basis. Upon initial application of these amendments, the Group will recognise deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented. During the year, the Group has performed a detailed assessment on the impact of amendments to HKAS 12. The Group has estimated that it will recognise a deferred tax asset of RMB13,012,000 for deductible temporary differences associated with lease liabilities and a deferred tax liability of RMB12,498,000 for taxable temporary differences associated with right-of-use assets, and recognise the cumulative effect of initially applying the amendments as an adjustment to retained profits at 1 January 2022.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

- The property management services segment includes property management services and other related services
- The property engineering and landscape construction services segment includes property engineering related services and landscape construction services
- The leasing services from investment property segment comprises, principally, investing in prime commercial space for its rental income potential
- The others segment mainly includes (i) the technological development services which are mainly software supporting services, (ii) the intermediary services for patient nursing and post-natal caring services

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. No analysis of segment assets and liabilities is presented as management does not regularly review such information for the purpose of resource allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Year ended 31 December 2022	Property management <i>RMB'000</i>	Property engineering and landscape construction services <i>RMB'000</i>	Leasing services from investment property <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination of intersegment sales <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue (note 4)						
Sales to external customers	635,869	39,581	9,931	6,618	-	691,999
Intersegment sales	-	15,357	-	-	(15,357)	-
	<u>635,869</u>	<u>54,938</u>	<u>9,931</u>	<u>6,618</u>	<u>(15,357)</u>	<u>691,999</u>
Segment results	58,113	4,611	(14,857)	4,911	-	52,778
Reconciliation:						
Other income and gains, net						6,615
Share of profit of an associate						5,758
Finance costs						(8,541)
Corporate and other unallocated expenses						<u>(4,958)</u>
Profit before tax						<u>51,652</u>

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2021	Property management <i>RMB'000</i>	Property engineering and landscape construction services <i>RMB'000</i>	Leasing services from investment property <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue (note 4)					
Sales to external customers	<u>542,838</u>	<u>49,301</u>	<u>5,942</u>	<u>3,217</u>	<u>601,298</u>
Segment results	58,775	3,724	774	468	63,741
Reconciliation:					
Other income and gains, net					7,292
Share of profit of an associate					5,540
Finance costs					(11,299)
Corporate and other unallocated expenses					<u>(8,830)</u>
Profit before tax					<u><u>56,444</u></u>

Information about geographical areas

Since 100% of the Group's revenue and operating profit were generated from Mainland China and 100% of the Group's non-current assets other than financial instruments, and deferred tax assets were located in Mainland China during the reporting period, no further geographical information of operating segments is presented.

Information about major customers

The Group has a large number of customers, and none of the revenue from these customers accounted for 10% or more of the Group's revenue during the reporting period (2021: Nil).

4. REVENUE, OTHER INCOME AND GAINS AND EXPENSES, NET

An analysis of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers	682,068	595,356
Revenue from other sources:		
Gross rental income from investment property operating leases	<u>9,931</u>	<u>5,942</u>
	<u><u>691,999</u></u>	<u><u>601,298</u></u>

4. REVENUE, OTHER INCOME AND GAINS AND EXPENSES, NET (continued)

Revenue from contracts with customers

(a) *Disaggregated revenue information*

Types of services	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Property management services	635,869	542,838
Property engineering services and landscape construction services	39,581	49,301
Others	<u>6,618</u>	<u>3,217</u>
Total revenue from contracts with customers	<u>682,068</u>	<u>595,356</u>
 Timing of revenue recognition		
Services transferred overtime	<u>682,068</u>	<u>595,356</u>

The following table shows the amounts of revenue recognised in the reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

Types of services	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at beginning of the year		
Property management services	19,521	13,607
Property engineering services and landscape construction services	1,999	11,761
Others	<u>448</u>	<u>393</u>
	<u>21,968</u>	<u>25,761</u>

4. REVENUE, OTHER INCOME AND GAINS AND EXPENSES, NET (continued)

(b) Performance obligations

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

Property management services

The performance obligation is satisfied over time as services are rendered. Management service contracts are for periods of one to five years, and are billed based on the time when the services are provided.

Property engineering services and landscape construction services

The performance obligation is satisfied over time as services are rendered. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

Other services

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Other service contracts are for periods of one year or less, or are billed based on the time when the services are provided.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) during the reporting period are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Amounts expected to be recognised as revenue:		
Within one year	305,496	294,435
After one year	<u>58,855</u>	<u>26,501</u>
	<u><u>364,351</u></u>	<u><u>320,936</u></u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to property management services, of which the performance obligations are to be satisfied within five years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

4. REVENUE, OTHER INCOME AND GAINS AND EXPENSES, NET (continued)

(b) Performance obligations (Continued)

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other income		
Government grants*	4,468	4,467
Bank interest income	711	433
Interest income from loans to a related party	–	2,089
Interest income from financial assets	473	68
Interest income from management of Tianjin Tianfu Property Management Co., Ltd.	<u>110</u>	<u>–</u>
	<u>5,762</u>	<u>7,057</u>
Gains		
Gain on termination of lease contract as lessee	802	56
Others	<u>274</u>	<u>183</u>
	<u>1,076</u>	<u>239</u>
Other expenses		
Loss on disposal of items of property and equipment	<u>(223)</u>	<u>(4)</u>
	<u>(223)</u>	<u>(4)</u>
	<u><u>6,615</u></u>	<u><u>7,292</u></u>

* Government grants include various subsidies received by the Group from the relevant government bodies. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

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

	<i>Notes</i>	2022 RMB'000	2021 <i>RMB'000</i>
Cost of services provided*		228,271	208,651
Depreciation of property and equipment		4,129	3,307
Depreciation of investment properties	<i>10</i>	18,854	5,933
Depreciation of right-of-use assets		1,285	3,720
Amortisation of other intangible assets**		396	386
Employee benefit expenses (including directors' and chief executive's remuneration:			
Wages and salaries		320,629	280,291
Pension scheme contributions		16,491	12,366
Equity-settled share award expenses		1,748	1,877
Lease payments not included in the measurement of lease liabilities		5,089	438
Provision for impairment of trade receivables	<i>11</i>	2,589	258
Listing expenses		4,958	8,830

* The amount of cost of services excludes those included in depreciation of property and equipment, depreciation of investment properties and employee benefit expenses, which are included in the respective total amounts disclosed separately above for each of these types of expenses during the year.

** The amortisation of other intangible assets during the reporting is included in administrative expenses in the consolidated statements of profit or loss.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 <i>RMB'000</i>
Interest on interest-bearing bank borrowings	4,602	9,740
Interest on lease liabilities	3,939	1,559
	8,541	11,299

7. INCOME TAX

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current Mainland China corporate income tax		
Charge for the year	16,092	11,473
Under provision in prior year	273	–
Deferred	<u>(5,094)</u>	<u>520</u>
Total	<u>11,271</u>	<u>11,993</u>

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Company and its subsidiary incorporated in the British Virgin Islands are not subject to any income tax.

Under the Hong Kong tax laws, the Company's subsidiary in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5% for taxable income earned in Hong Kong before 1 April 2018. Starting from the financial year commencing on 1 April 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HKD2,000,000 and 16.5% for any assessable profits in excess of HKD2,000,000. No provision for Hong Kong profits tax was made for the years ended 31 December 2022 and 2021 on the basis that the subsidiary did not have any assessable profits arising in or derived from Hong Kong during the current and prior years.

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

In accordance with the Enterprise Income Tax Law of the People's Republic of China, subsidiaries established in the PRC were subject to the income tax rate of 25% during the reporting period.

One of the Group's PRC subsidiaries was qualified as a high and new technology enterprise in 2020 and thus entitled to a preferential tax rate of 15% from 2020 to 2022. Meanwhile, this subsidiary was also qualified as a double soft certification enterprise from 2018, under the "Two Free, Three Half" program, and exempted from income tax in the first two years of profitability and pays only half of its applicable income tax of 25% for the next three years. In this connection, this subsidiary was taxed at 12.5% for the years ended 2021 and 2022. In addition, this subsidiary was also qualified a Small Low-profit Enterprises, of which the taxable income rate is subject to the preferential income tax policy with a lower actual tax burden.

According to the "Announcement of the Ministry of Finance and the State Administration of Taxation on Further Implementing the Preferential Income Tax Policies for Small Low-profit Enterprises" (Announcement No. 13 [2022] of the Ministry of Finance and the State Administration of Taxation) jointly issued by the Ministry of Finance and the State Administration of Taxation, during the period from 1 January 2022 to 31 December 2024, for the portion of annual taxable income amount which exceeds RMB1 million but not more than RMB3 million, the taxable income amount is reduced at a rate of 25%, and it is subject to enterprise income tax at a rate of 20%. According to the "Announcement of the Ministry of Finance and the State Administration of Taxation on Implementing Preferential Income Tax Policies for Small Low-profit Enterprises and Individual Industrial and Commercial Households" (No. 12 at the end of 2021) jointly issued by the Ministry of Finance and the State Administration of Taxation, during the period from 1 January 2021 to 31 December 2022, for the portion of annual taxable income amount which does not exceed RMB1 million, the taxable income amount is reduced at a rate of 12.5%, and it is subject to enterprise income tax at a rate of 20%. Certain of the Group's PRC subsidiaries and branches are qualified as small low-profit enterprises and thus were entitled to tax incentives during the year.

7. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before tax	51,652	56,444
Tax at the PRC corporate income tax rate of 25%	12,913	14,111
Effect of preferential tax rate of subsidiaries	(2,965)	(2,281)
Adjustments in respect of current tax of previous year	273	–
Expenses not deductible for tax	2,529	1,769
Profits attributable to an associate	(1,440)	(1,386)
Research and development super-deduction	(25)	(103)
Income not subject to tax	(10)	(17)
Tax losses utilised from previous year	(25)	(132)
Tax losses and temporary differences not recognised	<u>21</u>	<u>32</u>
Tax charge at the Group's effective rate	<u><u>11,271</u></u>	<u><u>11,993</u></u>

The share of tax attributable to an associate during the year amounted to RMB2,580,000 (2021: RMB1,625,000) is included in "Share of profit of an associate" in the consolidated statement of profit or loss.

8. DIVIDENDS

No dividends have been paid or declared by the Company during the year. The Board does not recommend any payment of final dividend for the year ended 31 December 2022 (2021: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2022 and 2021 was 219,430,694 (2021: 219,430,694), representing the weighted average number of ordinary shares of the Company immediately after the Capitalisation Issue (as defined below), as if all these shares had been in issue throughout the years ended 31 December 2022 and 2021.

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

The Group had no potentially dilutive ordinary shares in issue during the reporting period.

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

	2022	2021
	RMB'000	RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	<u>40,167</u>	<u>44,300</u>
	2022	2021
	Number of	Number of
	Shares	Shares
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic and diluted earnings per share calculation	219,430,694	219,430,694
Earnings per share		
Basic and diluted (RMB)	<u>0.18</u>	<u>0.20</u>

10. INVESTMENT PROPERTIES

	2022	2021
	RMB'000	RMB'000
Carrying amount at 1 January	63,904	45,848
Additions resulting from new lease	–	26,666
Additions resulting from acquisition	9,145	–
Additions resulting from leasehold improvement	17,730	–
Revision of a lease term arising from a change in the non-cancellable period of a lease	46,218	–
Termination of lease contract	(11,014)	(2,677)
Depreciation	<u>(18,854)</u>	<u>(5,933)</u>
Carrying amount at 31 December	<u>107,129</u>	<u>63,904</u>

* As at 31 December 2022, the Group had not obtained the ownership certificates for certain car parking lots with a net book value of approximately RMB8,914,000 (2021: Nil).

10. INVESTMENT PROPERTIES (continued)

The Group's investment properties are measured using a cost model and depreciated to write off their costs net of estimated residual values over their estimated useful lives on a straight-line basis.

The Group's investment properties are located on the land in the PRC with a period of land use right from 20 to 40 years for self-owned properties.

The carrying amount of the investment properties subleased or intended to be subleased at 31 December 2022 was RMB70,498,000 (2021: RMB51,356,000).

No item of investment properties was mortgaged as at 31 December 2022. As at 31 December 2021, the investment properties with a net book value of approximately RMB10,054,000 were mortgaged to the bank for a loan amounting to RMB20,000,000 with an interest rate of 5.655%.

11. TRADE RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	155,628	87,228
Impairment	<u>(4,789)</u>	<u>(2,200)</u>
	<u><u>150,839</u></u>	<u><u>85,028</u></u>

The Group's credit terms with its customers are mainly on credit. The credit period is generally within 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 year	152,658	85,122
1 to 2 years	1,429	433
Over 2 years	<u>1,541</u>	<u>1,673</u>
	<u><u>155,628</u></u>	<u><u>87,228</u></u>

11. TRADE RECEIVABLES (continued)

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

	2022	2021
	RMB'000	RMB'000
At beginning of year	2,200	1,942
Impairment losses (<i>note 5</i>)	2,589	258
At end of year	4,789	2,200

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing on invoices for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of reporting period about past events, current conditions and forecasts of future economic conditions.

The Group writes off trade receivables when there is information indicating that the counterparty is in severe financial difficulties and there is no realistic prospect of recovery.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	As at 31 December 2022		
	Expected credit loss rate	Gross carrying amount	Expected credit losses
		RMB'000	RMB'000
Within 1 year	1.19%	152,658	1,819
Over 1 year	100.00%	2,970	2,970
		155,628	4,789

	As at 31 December 2021		
	Expected credit loss rate	Gross carrying amount	Expected credit losses
		RMB'000	RMB'000
Within 1 year	0.11%	85,122	94
Over 1 year	100.00%	2,106	2,106
		87,228	2,200

12. TRADE PAYABLES

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

	2022 RMB'000	2021 <i>RMB'000</i>
Within 3 months	30,670	37,592
3 to 6 months	5,720	91
6 months to 1 year	170	107
Over 1 year	4,816	4,906
	<u>41,376</u>	<u>42,696</u>

Trade payables are unsecured, non-interest-bearing and normally settled on terms of less than 90 days.

Included in the Group's trade payables are amounts due to the Group's related parties of Nil as at 31 December 2022 (2021: RMB4,200,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company was successfully listed (the “**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 17 January 2023 (the “**Listing Date**”). The Company issued 75,000,000 ordinary shares with a par share of US\$0.0001 each at an offer price of HK\$1.70 per share, raising net proceeds of HK\$89.9 million (after deducting the Listing expenses).

The Group is a reputable integrated property management service provider in the PRC, with a primary focus in Shandong Province by upholding the strategy of “Shandong Focus (精耕山東)”. Over the years, the Group have gradually expanded the geographic presence from Jinan to cover 15 of the 16 prefecture-level cities in Shandong Province. Apart from the properties located in Shandong Province, the Group also managed projects located in Beijing, Hebei Province and Jiangsu Province.

The 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. In 2022, 91.9% of total revenue was generated from provision of property management services to the customers, of which 91.7% was generated from the non-residential properties, such as hospitals, public properties and commercial and other non-residential properties, whereas the remaining 8.3% was generated from residential properties. Hence, the Group’s property management services have been and will continue to be strategically focused on non-residential properties in the PRC.

In 2022, the Group received “Top 10 Hospital Property Service Providers” from CRIC Property Management (克而瑞物管) and Shanghai Yiju Real Estate Research Institute (上海易居房地產研究院). The Group were also awarded “Top 500 Property Management Companies of China (物業服務企業綜合實力測評TOP 500)”, “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 identification purpose only

The services provided by the Group 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) leasing services from property investment; and (iv) other services.

Leveraging the Group's extensive experience in Shandong Province, the Group actively explores and pursues opportunities to expand the property portfolio and bolster the geographic presence across Shandong Province by securing more projects, with a specific interest in high-end hospitals and public properties for improving the Group's profile and exposure in the market.

FUTURE PROSPECTS

The Board considers that the public listing status has impacted the perception of customers towards the Group and believes that the public listing status is a form of complementary advertising which will further enhance the corporate profile, assist in reinforcing the brand awareness and market reputation, enhance the credibility with the public and potential business partners and offer the Company a broader shareholder base which will provide liquidity in the trading of the Shares. In addition, the Board believes that the Listing will enable the Group to gain access to the capital market for future fund raising both at the time of Listing and at later stages which would inevitably assist the Group in the future business development.

Since the Group's establishment, the Group has been primarily focusing in the provision of the services in Shandong Province and upholding the 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 the business through organic growth initiatives, the Group plans to increase the market share in cities where the Group has presence in Shandong Province, via acquisitions and 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.

There was no change in the intended use of net proceeds as previously disclosed in the prospectus (the "**Prospectus**") of the Company in relation to global offering of its shares (the "**Global Offering**") dated 30 December 2022, and the expected timeline for the use of net proceeds will be subject to the business development of the Company. Since the Listing Date and up to the date of this announcement, the Group has not utilised any portion of the net proceeds, and will utilise the net proceeds in accordance with the intended purposes as stated in the Prospectus. Please refer to "Future Plans and Use of Proceeds" in the Prospectus for details.

FINANCIAL REVIEW

Revenue

The Group's revenue primarily generated from four business segments in terms of their nature, namely (i) property management services; (ii) property engineering and landscape construction services; (iii) leasing services from property investment; and (iv) other services. The revenue increased by RMB90.7 million or 15.1% from RMB601.3 million for the year ended 31 December 2021 to RMB692.0 million for the Reporting Period, which was primarily attributable to the business growth in the property management sector from RMB542.8 million for the year ended 31 December 2021 to RMB635.9 million for the Reporting Period, in particular the increase in revenue contribution from hospitals.

The table below sets forth a breakdown of revenues by type of services provided for the period indicated:

	For the year ended 31 December				
	2022		2021		Growth rate %
	Revenue RMB'000	%	Revenue RMB'000	%	
Property management services	635,869	91.9	542,838	90.3	17.1
Property engineering and landscape construction services	39,581	5.7	49,301	8.2	(19.4)
Leasing services from property investment	9,931	1.4	5,942	1.0	67.1
Other services	6,618	1.0	3,217	0.5	105.7
Total	691,999	100.0	601,298	100.0	15.1

The table below sets forth a breakdown of revenue from providing property management services by type of managed properties for the year indicated:

	For the year ended 31 December				
	2022		2021		Growth rate
	Revenue RMB'000	%	Revenue RMB'000	%	
Hospitals	276,545	43.5	215,941	39.8	28.1
Public properties	204,538	32.2	192,624	35.5	6.2
Commercial and other non-residential properties	102,079	16.0	86,112	15.9	18.5
Residential properties	52,707	8.3	48,161	8.8	9.4
Total	<u>635,869</u>	<u>100.0</u>	<u>542,838</u>	<u>100.0</u>	<u>17.1</u>

The property management services are the largest source of revenue. For the Reporting Period, the revenue from property management services was RMB635.9 million, accounting for 91.9% of the Group's total revenue. The increase in revenue in the segment was primarily driven by the additional hygiene and precautionary services requested by the hospitals under the Group's management leading to an increase in revenue contribution from hospitals from RMB215.9 million for the year ended 31 December 2021 to RMB276.5 million for the Reporting Period.

For the Reporting Period, the revenue from property engineering and landscape construction services was RMB39.6 million, accounting for 5.7% of the Group's total revenue. The decrease in revenue in the segment was primarily driven by certain sizeable property engineering and landscape construction projects were substantially completed and recognised most of their contract value in 2021 and the first half of 2022.

For the Reporting Period, the revenue from leasing services from property investment was RMB9.9 million, accounting for 1.4% of the Group's total revenue. The increase in revenue in the segment was primarily driven by a sizeable investment property located in Jinan City rented by the Group in December 2021 and certain part of such property being leased out since April 2022 for leasing services from property investment business.

For the Reporting Period, the revenue from other services was RMB6.6 million, accounting for 1.0% of the Group's total revenue. The increase in revenue in the segment was primarily driven by the growth of patient nursing and post-natal caring services.

Cost of Services

The Group's cost of services primarily includes staff costs, subcontracting costs, material and consumables and other cost of services. For the Reporting Period, the total cost of services of the Group was RMB569.8 million, which increased by RMB82.7 million or 17.0% as compared to RMB487.2 million for the same period of 2021 and was in line with the increase in the revenue generated from property management services.

Gross Profit and Gross Profit Margin

The gross profit of the Group increased by RMB8.0 million or 7.0% to RMB122.2 million for the Reporting Period from RMB114.1 million for the year ended 31 December 2021 as a results of the net effect of the abovementioned factors for the increase in revenue and costs of service.

The following table sets forth a breakdown of the gross profit and gross profit margin by business segments during the periods indicated:

	For the year ended 31 December			
	2022		2021	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Property management services	106,861	16.8	99,852	18.4
Property engineering and landscape construction services	9,262	23.4	10,874	22.1
Leasing services from property investment	887	8.9	774	13.0
Other services	5,140	77.7	2,642	82.1
Total	122,150	17.7	114,142	19.0

For the Reporting Period, the gross profit margin of the Group decreased by 1.3 percentage points as compared with 2021.

The gross profit margin of property management services decreased by 1.6 percentage points, primarily because of the significant increase in staff costs in around the end of 2022 resulting from (i) the increase in number of frontline staff deployed to the properties under the Group's management in order to implement access control measures; and (ii) the increase in wages for frontline staff for overtime in accordance with the relevant requirement of the PRC labour laws.

The gross profit margin of property engineering and landscape construction services increased by 1.3 percentage points, primarily due to the increase in the revenue and gross profit generated from the installation and/or repair of elevators.

The gross profit margin of leasing services from property investment decreased by 4.1 percentage points, primarily due to the relatively low gross profit margin of subleasing a sizeable investment property located in Jinan City.

The gross profit margin of other services decreased by 4.4 percentage points, primarily due to the increase in revenue contribution from patient nursing and post-natal caring services in 2022, the gross profit margin of which was lower than the sales of the use rights of software supporting systems in the year ended 31 December 2021.

Other Income and Gains and Expenses, Net

The other income and gains and expenses primarily consisted of government grants, bank interest income. The other income and gains and expenses, net decreased by RMB0.7 million or 9.3% from RMB7.3 million for the year ended 31 December 2021 to RMB6.6 million for the Reporting Period. The decrease in other income and gains and expenses was primarily due to the full settlement of the loans to the related parties in March 2021 which the Group recorded interest income from loans to related parties of RMB2.1 million for the year ended 31 December 2021 and no such income recorded for the Reporting Period.

Selling and Distribution Expenses

The selling and distribution expenses increased by RMB1.1 million or 23.7% from RMB4.7 million for the year ended 31 December 2021 to RMB5.8 million for the Reporting Period. The increase in selling and distribution expenses was primarily due to the increase in marketing expenses of RMB4.0 million (2021: RMB2.5 million) to cope with the business growth.

Administrative Expenses

The administrative expenses increased by RMB14.0 million or 25.6% from RMB54.5 million for the year ended 31 December 2021 to RMB68.5 million for the Reporting Period. The increase in administrative expenses was primarily due to the depreciation and amortisation expenses of RMB13.1 million, among which an expense of RMB11.2 million was caused by the vacancy of a sizeable investment property located in Jinan City.

Finance Costs

The finance costs decreased by RMB2.8 million or 24.4% from RMB11.3 million for the year ended 31 December 2021 to RMB8.5 million for the Reporting Period. The decrease in finance costs was primarily due to the repayment of certain short-term interest-bearing bank and other borrowings in March 2021.

Share of Profit of an Associate

Share of profit of an associate increased by RMB0.3 million or 5.5% from RMB5.5 million for the year ended 31 December 2021 to RMB5.8 million for the Reporting Period.

Income Tax Expense and Effective Tax Rate

The income tax expense decreased by RMB0.7 million or 6.0% from RMB12.0 million for the year ended 31 December 2021 to RMB11.3 million for the Reporting Period, primarily due to the decrease in profit before tax for the Reporting Period as compared to the year ended 31 December 2021 as a result of the net effect of the abovementioned factors for decrease in other income and gains and expenses and increase in selling and distribution expenses and administrative expenses.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the enterprise income tax rate of the Group’s PRC subsidiaries is 25%, unless subject to tax deduction or exemption. The effective tax rate of 21.2% for the year ended 31 December 2021 and 21.8% for the Reporting Period were lower than the 25% statutory tax rate applicable to the Group’s PRC subsidiaries primarily due to the fact that (i) certain subsidiaries of the Group are qualified as small low-profit enterprises in the PRC in 2019 and were entitled to a preferential income tax rate for three years; and (ii) the adjustment of the profits attributable to an associate were approximately RMB1.4 million for the year ended 31 December 2021 and RMB1.4 million for the Reporting Period, which were not taxable.

Profit for the Year and Net Profit Margin

As a result of the foregoing, the net profit decreased by RMB4.1 million or 9.2% from RMB44.5 million for the year ended 31 December 2021 to RMB40.4 million for the Reporting Period, and the net profit margin decreased from 7.4% for the year ended 31 December 2021 to 5.8% for the Reporting Period.

Property and Equipment

Property and equipment of the Group mainly consists of buildings, electronic devices and furniture, fixtures and equipment. As at 31 December 2022, the Group's property and equipment was RMB19.2 million, a slight increase by RMB0.7 million from RMB18.5 million as at 31 December 2021 mainly due to the additions of furniture, fixtures and equipment of RMB4.1 million.

Investment Properties

The investment properties primarily represented commercial properties located in the PRC that were or intended to be leased or subleased to third parties under operating leases for the provision of the property leasing services. The investment properties increased from RMB63.9 million as at 31 December 2021 to RMB107.1 million as at 31 December 2022, primarily due to (i) the revision of a lease term arising from a change in the non-cancellable period of a lease of RMB46.2 million for a sizeable investment property located in Jinan City; and (ii) the leasehold improvement of RMB17.7 million incurred for the aforementioned sizeable investment property.

Investment in an Associate

The investment in an associate represents the Group's 41% interests in Tianjin Tianfu Property Management Co., Ltd.* (天津天孚物業管理有限公司), which is a property management company located in Tianjin. The Group recorded investment in an associate of RMB133.4 million as at 31 December 2022.

Trade Receivables

The trade receivables are mainly fees receivable from the property management services, and property engineering and landscape construction services. The Group's trade receivables as at 31 December 2022 amounted to RMB150.8 million, representing an increase of RMB65.8 million or 77.4% as compared to RMB85.0 million as at 31 December 2021, primarily as a result of the business growth of property management services to hospitals, which require a longer settlement period.

Prepayments, Other Receivables and Other Assets

Prepayment, other receivables and other assets comprised prepayments to suppliers, deposits and other receivables and deferred Listing expenses. Prepayment, other receivables and other assets remained relatively stable from RMB21.3 million as at 31 December 2021 to RMB21.1 million as at 31 December 2022.

* *for identification purpose only*

Trade Payables

The Group's trade payables as at 31 December 2022 amounted to RMB41.4 million, representing a decrease of approximately RMB1.3 million or 3.1% as compared to approximately RMB42.7 million as at 31 December 2021.

Other Payables and Accruals

Other payables and accruals remained stable from RMB106.9 million as at 31 December 2021 to RMB105.7 million as at 31 December 2022.

Liquidity, Financial Resources and Capital Structures

As at 31 December 2022, the Group had cash and cash equivalents of RMB64.7 million (of which RMB1.2 million is denominated in HK\$ (2021: RMB1.1 million), and the rest is denominated in RMB). The total interest-bearing bank loans and other borrowings slightly decreased to RMB94.7 million as at 31 December 2022 from RMB96.8 million as at 31 December 2021. As at 31 December 2022, interest-bearing bank loans and other borrowings amounting to (i) RMB20.0 million (2021: RMB30.0 million) were carried at interest rates ranging from 4.30% to 5.60% (2021: ranging from 5.66% to 5.67%) per annum and repayable within one year; (ii) RMB13.1 million (2021: RMB11.1 million) were carried at interest rates ranging from 4.45% to 5.67% (2021: 4.65%) per annum and repayable within one year; (iii) RMB17.0 million (2021: Nil) were carried at fixed interest rates at 5.67% (2021: Nil) per annum and repayable within two years; and (iv) RMB44.5 million (2021: RMB55.7 million) were carried at floating rates of loan prime rate at 4.45% (2021: 4.65%) per annum and repayable in one to five years (2021: one to six years). The gearing ratio (total interest-bearing debts divided by total equity) as at 31 December 2022 was approximately 47.1% (31 December 2021: 61.2%). The current ratio (total current assets divided by total current liabilities) as at 31 December 2022 was 1.2 (31 December 2021: 1.3).

The share capital of the Company is only comprised of ordinary shares. As at the date of this announcement, the issued share capital of the Company was US\$30,000, comprising 300,000,000 shares of nominal value of US\$0.0001 per share.

Capital expenditure and commitments

The Group's capital expenditure in Reporting Period primarily comprised expenditure on property and equipment, investment properties and other intangible assets, amounted to a total of RMB79.0 million (31 December 2021: RMB33.1 million).

As at 31 December 2022, the Group had no capital commitments (31 December 2021: Nil).

Pledge of Assets

As at 31 December 2022, certificates of deposit amounting to RMB4.0 million owned by the Group were pledged as security for bank loans amounting to RMB17.0 million at an interest rate of 5.67% and repayable within two years (31 December 2021: the buildings with a net book value of RMB5.6 million, the investment properties with a net book value of RMB10.1 million and certificates of deposit of RMB10.0 million were mortgaged and/or pledged as security for bank loans).

Contingent Liabilities

As at 31 December 2022, the Group did not have any material contingent liabilities (31 December 2021: Nil).

Cash Flow

For the Reporting Period, the net cash used in operating activities was RMB15.8 million, which was primarily due to the increase in trade receivables. The net cash used in investing activities for the Reporting Period was RMB31.4 million, which was primarily due to the purchase and decoration of investment properties. The net cash used in financing activities for the Reporting Period was RMB10.1 million, which was primarily due to the repayment of interest-bearing bank and other borrowings.

Foreign Exchange Risk

The Group operates its business primarily in the PRC. RMB is the currency used by the Group for valuation and settlement of all transactions. Any depreciation of RMB would adversely affect the value of any dividends paid by the Group to shareholders outside the PRC. Majority of the Group's cash and cash equivalents is denominated in RMB. The Group is currently not engaged in hedging activities that are designed or intended to manage foreign exchange rate risk. The Group will continue to monitor foreign exchange activities and make its best efforts to protect the cash value of the Group.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policy and thus maintained a healthy liquidity position for the Reporting Period. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, the Company did not have any significant investments (including significant investments which accounted for 5% or more of the total assets of the Group) or material acquisitions or disposals of subsidiaries, associates and joint ventures.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the Reporting Period (2021: Nil).

FUTURE PLANS FOR MAJOR INVESTMENTS

The Group intends to utilise part of the net proceeds raised from the Global Offering to acquire property management companies according to the Prospectus. As at the date of this announcement, the Group does not have any other material plans to invest in the future.

EMPLOYEES AND REMUNERATION POLICY

The Group employed 8,755 employees as at 31 December 2022 (31 December 2021: 7,132). The Group also engages subcontractors in provision of labour intensive works, such as general cleaning and security services. The employment contracts either have no fixed terms, or if there are fixed terms, the terms are generally up to five years, after which the Group evaluate renewals based on performance appraisals. All of the full-time employees are paid a fixed salary and may be granted other allowances, based on their positions. In addition, discretionary bonuses may also be awarded to employees based on the employee's performance. The Group conduct regular performance appraisals to ensure that the employees receive feedback on their performance.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability of the Company. The Company was not a listed company for the Reporting Period and hence, it is not required to follow the requirements in the code provisions related to corporate governance. From the Listing Date to the date of this announcement, the Company has adopted and complied with all applicable code provisions under the Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (the "Listing Rules").

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set forth in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Directors. The Company had made specific enquiry and each Director confirmed that they have complied with the Model Code from the Listing Date to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities since the Listing Date and up to the date of this announcement.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules since the Listing Date and up to the date of this announcement. The Company maintained the minimum level of public float of 25% of its total issued share capital.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to the resolutions of the shareholders passed on 14 December 2022, the Company allotted and issued a total of 23,000,000 ordinary shares (including 569,306 shares allotted to Runhua ESOP Limited) (the “**Capitalisation Issue**”), credited as fully paid at par, to Springrain Investment Limited, the BVI companies whose shareholders were limited partners of Jinan Anlan Enterprise Management Consulting Partnership (Limited Partnership)* (濟南安瀾企業管理諮詢合夥企業(有限合夥)), the BVI companies whose shareholders were limited partners of Jinan Lutong Business Consulting Partnership (Limited Partnership)* (濟南祿通企業管理諮詢合夥企業(有限合夥)), Archery Capital Management Limited, and Runhua ESOP Limited equally on 17 January 2023 by way of capitalisation of the sum of US\$2,300 standing to the credit of the share premium account of the Company.

On 17 January 2023, the ordinary shares of the Company were listed on the Main Board of the Stock Exchange, and in connection with the Company’s listing, 75,000,000 ordinary shares of the Company were issued through Global Offering at the offer price of HK\$1.70 per share for aggregate cash proceeds before expenses of HK\$127.5 million.

Save for that, the Group did not have any other significant event after 31 December 2022 and up to the date of this announcement.

* *for identification purpose only*

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing intended to be applied in accordance with the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 30 December 2022 and with details as set out as follow:

Usage	% of total proceeds	Planned allocation of net proceeds <i>HK\$ million</i> <i>(approximately)</i>	Utilised net proceeds up to the date of this announcement <i>HK\$ million</i> <i>(approximately)</i>	Unutilised net proceeds up to the date of this announcement <i>HK\$ million</i> <i>(approximately)</i>	Expected timeline for full utilisation of the balance
Making strategic investments and acquisitions to expand the property management business	54.3	48.8	–	48.8	By the end of 2025
Developing, strengthening and implementing the information technologies	28.0	25.2	–	25.2	By the end of 2025
Improving staff motivation mechanism to attract, cultivate and retain talents	17.7	15.9	–	15.9	By the end of 2025

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company has established the Audit Committee in compliance with the Listing Rules to fulfil the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Audit Committee currently consists of three independent non-executive Directors, namely, Ms. Chen Haiping, Mr. Cheng Xin and Ms. Bao Ying. Ms. Chen Haiping is the chairlady of the Audit Committee.

The Audit Committee has reviewed with the management of the Company this annual results and the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial statements matters, including the review of the consolidated financial statements of the Group for the Reporting Period.

SCOPE OF WORK OF THE AUDITOR

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the Reporting Period as set out in this announcement have been compared by the Group's auditor, Ernst & Young, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Ernst & Young in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT ON THE WEBSITES OF STOCK EXCHANGE AND THE COMPANY

The annual results announcement has been published on the websites of the Stock Exchange at (www.hkexnews.hk) and the Company at (www.sdrhwy.cn). The annual report of the Company for the Reporting Period, which contains all information required by the Listing Rules, will be dispatched to the Company's shareholders and published on the websites of the Stock Exchange and the Company in due course.

ANNUAL GENERAL MEETING

The annual general meeting of the Company ("AGM") will be held on Monday, 29 May 2023 while the notice and circular convening the AGM will be published and dispatched to the Company's shareholders in the form required in the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 23 May 2023 to Monday, 29 May 2023 (both days inclusive). In order to qualify for attending and voting at the AGM, all transfer documents together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar for registration, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 22 May 2023.

By Order of the Board
Runhua Living Service Group Holdings Limited
Mr. Yang Liqun
Chairman and executive Director

Hong Kong, 30 March 2023

As at the date of this announcement, Mr. Yang Liqun and Mr. Fei Zhongli are executive Directors; Mr. Luan Tao, Mr. Luan Hangqian and Mr. Cheng Xin are non-executive Directors; and Ms. Chen Haiping, Ms. Bao Ying and Ms. He Murong are independent non-executive Directors.