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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 2023**

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 2023 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2022. 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 28 March 2024.

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 RMB768.4 million, representing an increase of 11.0% as compared with 2022.
- (b) Gross profit for the Reporting Period amounted to RMB133.2 million, representing an increase of 9.1% as compared with 2022.
- (c) Gross profit margin for the Reporting Period was 17.3%, representing a decrease of 0.4 percentage point as compared with 2022.
- (d) Profit for the Reporting Period amounted to RMB41.7 million, representing an increase of 3.3% as compared with 2022.
- (e) For the Reporting Period, basic earnings per share of the Group amounted to RMB0.14, representing a decrease of 22.2% as compared with 2022.
- (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 AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
REVENUE	4	768,408	691,999
Cost of services		<u>(635,193)</u>	<u>(569,849)</u>
Gross profit		133,215	122,150
Other income and gains and expenses, net	4	7,043	6,615
Selling and distribution expenses		(1,530)	(5,816)
Administrative expenses		(78,706)	(68,514)
Finance costs	5	(9,723)	(8,541)
Share of profit of an associate		<u>4,199</u>	<u>5,758</u>
PROFIT BEFORE TAX	6	54,498	51,652
Income tax expense	7	<u>(12,769)</u>	<u>(11,271)</u>
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>41,729</u>	<u>40,381</u>
Profit and total comprehensive income attributable to:			
– Owners of the parent		41,459	40,167
– Non-controlling interests		<u>270</u>	<u>214</u>
		<u>41,729</u>	<u>40,381</u>
EARNINGS PER SHARE			
Basic and diluted (RMB)	9	<u>0.14</u>	<u>0.18</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property and equipment		19,852	19,211
Investment properties		89,996	107,129
Other intangible assets		2,241	2,618
Investments in an associate		137,631	133,432
Other receivables		2,326	2,326
Deferred tax assets		6,736	8,365
Total non-current assets		258,782	273,081
CURRENT ASSETS			
Inventories		111	124
Trade receivables	<i>10</i>	193,575	150,839
Contract assets		30,221	25,103
Prepayments, other receivables and other assets		37,233	21,114
Restricted deposits		290	5,482
Cash and cash equivalents		195,337	64,664
		456,767	267,326
CURRENT LIABILITIES			
Trade payables	<i>11</i>	49,745	41,376
Other payables and accruals		141,979	105,747
Interest-bearing bank borrowings		71,200	33,140
Lease liabilities		10,945	16,899
Tax payable		12,634	14,071
		286,503	211,233
NET CURRENT ASSETS		170,264	56,093
TOTAL ASSETS LESS CURRENT LIABILITIES		429,046	329,174

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

	2023	2022
	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	33,400	61,540
Lease liabilities	54,535	66,756
Deferred tax liabilities	134	51
	<u>88,069</u>	<u>128,347</u>
NET ASSETS	<u>340,977</u>	<u>200,827</u>
EQUITY		
Paid-in capital / share capital	205	1
Reserves	340,125	200,449
	<u>340,330</u>	<u>200,450</u>
Equity attributable to owners of the Company		
Non-controlling interests	647	377
	<u>340,977</u>	<u>200,827</u>
TOTAL EQUITY	<u>340,977</u>	<u>200,827</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION

Runhua Living Service Group Holdings Limited (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**”). In the opinion of the directors of the Company, the ultimate holding company of the Company is Springrain Investment Limited, a limited liability company incorporated in the British Virgin Islands.

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 properties and other services in the PRC.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”)

In the current year, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants which are effective for the Group’s financial year beginning on 1 January 2023:

HKFRS 17 (including the October 2020 and February 2022 amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

Except as described below, the application of the other new and amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

Impact on application of Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to HKAS 12 narrow the scope of the initial recognition exemption of deferred tax liabilities and deferred tax assets so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences, such as leases and decommissioning liabilities. 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 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 earnings at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

The Group previously applied HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis. Upon application of the amendments, the Group has recognised a separate deferred tax asset and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

There was no impact on the consolidated statement of financial position because the related deferred tax balances qualify for offsetting under HKAS 12. There was no impact on the opening retained earnings as at 1 January 2022.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (continued)

Amendments to HKFRSs issued but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sales and Leaseback ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ¹
Amendments to HKAS 1	Non-current Liabilities with Covenants ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

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

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the amendments to HKFRSs will have no material impact on the financial performance and the financial position of the Group.

3. OPERATING SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The directors of the Company have chosen to organise the Group around differences in services. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

For management purposes, the Group 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 properties 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 and (ii) the intermediary services for patient nursing and post-natal caring services.

3. OPERATING SEGMENT INFORMATION (continued)

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 2023	Property management services <i>RMB'000</i>	Property engineering and landscape construction services <i>RMB'000</i>	Leasing services from investment properties <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination of inter-segment sales <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue <i>(note 4)</i>						
Sales to external customers	701,890	42,643	18,121	5,754	-	768,408
Inter-segment sales	-	2,254	-	-	(2,254)	-
	<u>701,890</u>	<u>44,897</u>	<u>18,121</u>	<u>5,754</u>	<u>(2,254)</u>	<u>768,408</u>
Segment results	44,225	5,334	1,985	3,953	-	55,497
Reconciliation:						
Other income and gains and expenses, net						7,043
Share of profit of an associate						4,199
Finance costs						(9,723)
Corporate and other unallocated expenses						<u>(2,518)</u>
Profit before tax						<u><u>54,498</u></u>

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2022	Property management services RMB'000	Property engineering and landscape construction services RMB'000	Leasing services from investment properties RMB'000	Others RMB'000	Elimination of inter-segment sales RMB'000	Total RMB'000
Segment revenue (note 4)						
Sales to external customers	635,869	39,581	9,931	6,618	-	691,999
Inter-segment 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 and expenses, 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><u>51,652</u></u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of other income and gains and expenses, net, share of profit of an associate, finance costs and central administration costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

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 year (2022: Nil).

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

An analysis of revenue is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15	750,287	682,068
Revenue from other sources:		
Gross rental income from investment properties operating leases	<u>18,121</u>	<u>9,931</u>
	<u>768,408</u>	<u>691,999</u>

Revenue from contracts with customers

(a) *Disaggregated revenue information*

Types of services	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Property management services	701,890	635,869
Property engineering services and landscape construction services	42,643	39,581
Others	<u>5,754</u>	<u>6,618</u>
Total revenue from contracts with customers with the scope of HKFRS 15	<u>750,287</u>	<u>682,068</u>
Timing of revenue recognition		
Services transferred overtime	<u>750,287</u>	<u>682,068</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:

Types of services	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at beginning of the year		
Property management services	19,621	19,521
Property engineering services and landscape construction services	1,562	1,999
Others	<u>558</u>	<u>448</u>
	<u>21,741</u>	<u>21,968</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. The customer is 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.

Transaction price allocated to the remaining performance obligations for contracts with customers

The transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period and the expected timing of recognition are, as follows:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	859,545	305,496
After one year	88,206	58,855
	<u>947,751</u>	<u>364,351</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)

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Other income		
Government grants*	2,827	4,468
Bank interest income	1,607	711
Interest income from financial assets	368	473
Interest income from management of Tianjin Tianfu Property Management Co., Ltd.	–	110
Fair value gains on financial assets at fair value through profit or loss	<u>1</u>	<u>–</u>
	<u>4,803</u>	<u>5,762</u>
Gains and expenses		
Foreign exchange difference, net	1,674	–
Gain on termination of lease contract as lessee	–	802
Net loss on disposal of items of property and equipment	(22)	(223)
Others	<u>588</u>	<u>274</u>
	<u>2,240</u>	<u>853</u>
	<u><u>7,043</u></u>	<u><u>6,615</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. FINANCE COSTS

An analysis of finance costs is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on interest-bearing bank borrowings	5,737	4,602
Interest on lease liabilities	<u>3,986</u>	<u>3,939</u>
	<u><u>9,723</u></u>	<u><u>8,541</u></u>

6. PROFIT BEFORE TAX

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cost of services provided*	235,806	228,271
Depreciation of property and equipment	4,162	4,129
Depreciation of investment properties	20,924	18,854
Depreciation of right-of-use assets	–	1,285
Amortisation of other intangible assets**	397	396
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	372,848	320,629
Pension scheme contributions	34,899	16,491
Equity-settled share award expenses	2,033	1,748
(Reversal of) provision for impairment of trade receivables	(520)	2,589
Auditors' remuneration	950	1,500
Listing expenses	<u>2,518</u>	<u>4,958</u>

* 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 period is included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

7. INCOME TAX EXPENSE

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
PRC Enterprise Income Tax		
Current tax	10,404	16,092
Under provision in prior years	<u>653</u>	<u>273</u>
	11,057	16,365
Deferred tax	<u>1,712</u>	<u>(5,094)</u>
Total	<u>12,769</u>	<u>11,271</u>

8. DIVIDENDS

No dividends have been paid or declared by the Company during the year. The board of directors does not recommend any payment of final dividend for the year ended 31 December 2023 (2022: Nil).

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

The calculations of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Earnings:		
Profit attributable to ordinary equity holders of the parent	<u>41,459</u>	<u>40,167</u>
	2023 <i>Number of Shares</i>	2022 <i>Number of Shares</i>
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic and diluted earnings per share calculation	<u>291,143,023</u>	<u>219,430,694</u>
Earnings per share		
Basic and diluted (<i>RMB</i>)	<u>0.14</u>	<u>0.18</u>

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 2023 and 2022 was 291,143,023 (2022: 219,430,694), representing the weighted average number of ordinary shares of the Company immediately after the capitalisation issue, as if all these shares had been in issue throughout the years ended 31 December 2023 and 2022.

The Group had no potentially dilutive ordinary shares in issue for both years.

10. TRADE RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	197,844	155,628
Impairment	<u>(4,269)</u>	<u>(4,789)</u>
	<u>193,575</u>	<u>150,839</u>

10. TRADE RECEIVABLES (continued)

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.

Included in the Group's trade receivables are amounts due from the Group's related parties of approximately RMB11,808,770 as at 31 December 2023 (2022: RMB1,743,000), which are trade in nature, unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 year	178,045	150,839
1 to 2 years	15,002	–
Over 2 years	528	–
	<u>193,575</u>	<u>150,839</u>

11. TRADE PAYABLES

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 3 months	35,323	30,670
3 to 6 months	4,450	5,720
6 months to 1 year	3,168	170
Over 1 year	6,804	4,816
	<u>49,745</u>	<u>41,376</u>

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

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 2023, 91.3% of total revenue was generated from provision of property management services to the customers, of which 91.9% was generated from the non-residential properties, such as hospitals, public properties and commercial and other non-residential properties, whereas the remaining 8.1% 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 2023, the Group received “TOP 500 Property Management Companies of China” from CRIC Property Management and Beijing Zhongwu Research Association Information Technology Co., Ltd. The Group were also awarded “Top 3 Hospital Property Management Companies in Shandong”, “Top 3 School Property Management Companies in Shandong”, “Top 10 Famous Brands in Shandong”, “Top 100 Property Service Satisfaction Enterprises of China” and “Exemplary organization of Enterprise Culture Construction in Shandong”

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.

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 RMB76.4 million or 11.0% from RMB692.0 million for the year ended 31 December 2022 to RMB768.4 million for the Reporting Period, which was primarily attributable to the business growth in the property management sector from RMB635.9 million for the year ended 31 December 2022 to RMB701.9 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				Growth rate %
	2023		2022		
	Revenue RMB'000	%	Revenue RMB'000	%	
Property management services	701,890	91.3	635,869	91.9	10.4
Property engineering and landscape construction services	42,643	5.5	39,581	5.7	7.7
Leasing services from property investment	18,121	2.4	9,931	1.4	82.5
Other services	5,754	0.8	6,618	1.0	-13.1
Total	<u>768,408</u>	<u>100.0</u>	<u>691,999</u>	<u>100.0</u>	<u>11.0</u>

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			
	2023		2022	
	Revenue		Revenue	
	RMB'000	%	RMB'000	%
Hospitals	296,705	42.3	276,545	43.5
Public properties	238,717	34.0	204,538	32.2
Commercial and other non-residential properties	109,779	15.6	102,079	16.0
Residential properties	56,689	8.1	52,707	8.3
Total	<u>701,890</u>	<u>100.0</u>	<u>635,869</u>	<u>100.0</u>

The property management services are the largest source of revenue. For the Reporting Period, the revenue from property management services was RMB701.9 million, accounting for 91.3% 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 RMB276.5 million for the year ended 31 December 2022 to RMB296.7 million for the Reporting Period and the increase in number of managed protects as a result of the Group's continuous effort to expand business and diversity the portfolios of the property management projects.

For the Reporting Period, the revenue from property engineering and landscape construction services was RMB42.6 million, accounting for 5.5% of the Group's total revenue. The increase 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 during the Reporting Period.

For the Reporting Period, the revenue from leasing services from property investment was RMB18.1 million, accounting for 2.4% 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 most part of such property being leased out for leasing services from property investment business.

For the Reporting Period, the revenue from other services was RMB5.8 million, accounting for 0.8% of the Group's total revenue. The decrease in revenue in the segment was primarily driven by the decrease 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 RMB635.2 million, which increased by RMB65.4 million or 11.5% as compared to RMB569.8 million for the same period of 2022 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 RMB11.0 million or 9.1% to RMB133.2 million for the Reporting Period from RMB122.2 million for the year ended 31 December 2022 as a result 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			
	2023		2022	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Property management services	116,058	16.5	106,861	16.8
Property engineering and landscape construction services	9,308	21.8	9,262	23.4
Leasing services from property investment	3,704	20.4	887	8.9
Other services	4,145	72.0	5,140	77.7
Total	133,215	17.3	122,150	17.7

For the Reporting Period, the gross profit margin of the Group decreased by 0.4 percentage point as compared with 2022.

The gross profit margin of property management services decreased by 0.3 percentage point, primarily because of the business expansion to some properties, which recorded relatively low overall gross profit margin.

The gross profit margin of property engineering and landscape construction services decreased by 1.6 percentage points, primarily due to the decrease of contract value of one project while the project's cost incurred remaining unchanged as a result of China's property market downturn.

The gross profit margin of leasing services from property investment increased by 11.5 percentage points, primarily due to the relatively high gross profit margin of subleasing a sizeable investment property located in Jinan City.

The gross profit margin of other services decreased by 5.7 percentage points, primarily due to the decrease in revenue contribution from patient nursing and post-natal caring services in 2023, the gross profit margin of which was lower than 2022.

Other Income and Gains and Expenses, Net

The other income and gains and expenses primarily consisted of government grants, interest income. The other income and gains and expenses, net increased by RMB428.0 thousand or 6.5% from RMB6.6 million for the year ended 31 December 2022 to RMB7.0 million for the Reporting Period. The increase in other income and gains and expenses was primarily due to an increase of bank interest income and foreign exchange difference net, partially offset by a decrease of government grants.

Selling and Distribution Expenses

The selling and distribution expenses decreased by RMB4.3 million or 73.7% from RMB5.8 million for the year ended 31 December 2022 to RMB1.5 million for the Reporting Period. The decrease in selling and distribution expenses was primarily due to the decrease in marketing expenses.

Administrative Expenses

The administrative expenses increased by RMB10.2 million or 14.9% from RMB68.5 million for the year ended 31 December 2022 to RMB78.7 million for the Reporting Period. The increase in administrative expenses was primarily due to the increase of our management personnel costs as a result of an increase in the number of our management personnel and an increase in the average salary of our management personnel.

Finance Costs

The finance costs increased by RMB1.2 million or 13.8% from RMB8.5 million for the year ended 31 December 2022 to RMB9.7 million for the Reporting Period. The increase in finance costs was primarily due to the increase of interest on interest-bearing bank borrowings.

Share of Profit of an Associate

Share of profit of an associate decreased by RMB1.6 million or 27.1% from RMB5.8 million for the year ended 31 December 2022 to RMB4.2 million for the Reporting Period.

Income Tax Expense and Effective Tax Rate

The income tax expense increased by RMB1.5 million or 13.3% from RMB11.3 million for the year ended 31 December 2022 to RMB12.8 million for the Reporting Period, primarily due to the increase in profit before tax for the Reporting Period as compared to the year ended 31 December 2022 as a result of the net effect of the abovementioned factors.

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 21.8% for the year ended 31 December 2022 and 23.4% 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 and were entitled to a preferential income tax rate; and (ii) the adjustment of the profits attributable to an associate were approximately RMB1.4 million for the year ended 31 December 2022 and RMB1.1 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 increased by RMB1.3 million or 3.3% from RMB40.4 million for the year ended 31 December 2022 to RMB41.7 million for the Reporting Period, and the net profit margin decreased from 5.8% for the year ended 31 December 2022 to 5.4% 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 2023, the Group’s property and equipment was RMB19.9 million, a slight increase by RMB0.7 million from RMB19.2 million as at 31 December 2022 mainly due to the additions of furniture, fixtures and equipment.

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 decreased from RMB107.1 million as at 31 December 2022 to RMB90.0 million as at 31 December 2023, primarily due to depreciation.

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 RMB137.6 million as at 31 December 2023.

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 2023 amounted to RMB193.6 million, representing an increase of RMB42.8 million or 28.3% as compared to RMB150.8 million as at 31 December 2022, 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 increased from RMB21.1 million as at 31 December 2022 to RMB37.2 million as at 31 December 2023, primarily due to the increase of the deposits and other receivables.

Trade Payables

The Group's trade payables as at 31 December 2023 amounted to RMB49.7 million, representing an increase of approximately RMB8.3 million or 20.2% as compared to approximately RMB41.4 million as at 31 December 2022.

* for identification purpose only

Other Payables and Accruals

Other payables and accruals increased from RMB105.7 million as at 31 December 2022 to RMB142.0 million as at 31 December 2023.

Liquidity, Financial Resources and Capital Structures

As at 31 December 2023, the Group had cash and cash equivalents of RMB195.6 million (of which RMB15.0 million is denominated in HK\$ (2022: RMB1.2 million), and the rest is denominated in RMB). The total interest-bearing bank loans and other borrowings slightly increased to RMB105.0 million as at 31 December 2023 from RMB94.7 million as at 31 December 2022. As at 31 December 2023, interest-bearing bank loans and other borrowings amounting to (i) RMB20.0 million (2022: RMB20.0 million) were carried at interest rates ranging from 4.30% to 5.60% (2022: ranging from 4.30% to 5.60%) per annum and repayable within one year; (ii) RMB13.1 million (2022: RMB13.1 million) were carried at interest rates ranging from 4.20% to 5.67% (2022: ranging from 4.45% to 5.67%) per annum and repayable within one year; (iii) RMB17.0 million (2022: RMB17.0 million) were carried at fixed interest rates at 5.67% (2022: 5.67%) per annum and repayable within two years; and (iv) RMB33.4 million (2022: RMB44.5 million) were carried at floating rates of loan prime rate at 4.20% (2022: 4.45%) per annum and repayable in one to four years (2022: one to five years). The gearing ratio (total interest-bearing debts divided by total equity) as at 31 December 2023 was approximately 30.7% (31 December 2022: 47.1%). The current ratio (total current assets divided by total current liabilities) as at 31 December 2023 was 1.7 (31 December 2022: 1.2).

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 the Reporting Period primarily comprised expenditure on property and equipment, investment properties and other intangible assets, amounted to a total of RMB9.5 million (31 December 2022: RMB79.0 million).

As at 31 December 2023, the Group had no capital commitments (31 December 2022: Nil).

Pledge of Assets

As at 31 December 2023, 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 2022: the buildings with a net book value of RMB5.5 million, the investment properties with a net book value of RMB9.15 million and certificates of deposit of RMB4.0 million were mortgaged and/or pledged as security for bank loans).

Contingent Liabilities

As at 31 December 2023, the Group did not have any material contingent liabilities (31 December 2022: Nil).

Cash Flow

For the Reporting Period, the net cash from operating activities was RMB53.5 million, which was primarily due to the increase in revenue. The net cash used in investing activities for the Reporting Period was RMB7.2 million, which was primarily due to the purchase of financial assets at FVTPL. The net cash from financing activities for the Reporting Period was RMB84.3 million, which was primarily due to the issue of share on initial public offerings.

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 (2022: 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 9,906 employees as at 31 December 2023 (31 December 2022: 8,755). 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. Throughout the Reporting Period, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code in Appendix 14 (reclassified as Appendix C1 since 31 December 2023) to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct (the “**Code of Conduct**”) regarding securities transactions by the Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set forth in Appendix 10 (reclassified as Appendix C3 since 31 December 2023) to the Listing Rules. The Company has made specific enquiry and each Director confirmed that they have complied with all required standards set out in the Model Code and the Code of Conduct from the Listing Date to 31 December 2023.

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 31 December 2023.

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

The Group did not have any other significant event after 31 December 2023 and up to the date of this announcement.

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 during the Reporting Period <i>HK\$ million</i> <i>(approximately)</i>	Unutilised net proceeds up to 31 December 2023 <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	4.4	20.8	By the end of 2025
Improving staff motivation mechanism to attract, cultivate and retain talents	17.7	15.9	3.9	12.0	By the end of 2025
	100.0	89.9	8.3	81.6	

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 one non-executive Director and two independent non-executive Directors, namely Mr. Cheng Xin, Ms. Chen Haiping 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.

CHANGE OF AUDITORS

Ernst & Young (“EY”) has resigned as the auditor of the Company with effect from 18 December 2023. SHINEWING (HK) CPA Limited as the new auditor of the Company was appointed with effect from 9 January 2024 to fill the casual vacancy following the resignation of EY and to hold office until the conclusion of the next annual general meeting of the Company.

SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been agreed by the Group’s auditors, SHINEWING (HK) CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING (HK) CPA Limited on this announcement.

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 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, 3 June 2024 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 Wednesday, 29 May 2024 to Monday, 3 June 2024 (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 Tuesday, 28 May 2024.

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

Hong Kong, 28 March 2024

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.