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HEVOL SERVICES GROUP CO. LIMITED
和泓服務集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6093)

ANNOUNCEMENT OF THE INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

Revenue of the Group increased by RMB39.3 million, or 32.5% to RMB160.4 million for the six months ended 30 June 2020 from RMB121.1 million for the corresponding period in 2019. Revenue from property management services amounted to RMB120.7 million, an increase of 45.6% compared to RMB82.9 million for the corresponding period in 2019, accounting for 75.2% of the Group's total revenue for the six months ended 30 June 2020; revenue from community value-added services was RMB24.2 million, a decrease of 9.0% compared to RMB26.6 million for the corresponding period in 2019; revenue from value-added services to non-property owners recorded a growth of 33.6%, amounted to RMB15.5 million for the six months ended 30 June 2020 compared to RMB11.6 million for the corresponding period in 2019.

Gross profit amounted to RMB54.7 million, representing an increase of 43.6% over RMB38.1 million for the corresponding period in 2019. Gross profit margin was 34.1%, an increase of 2.6% compared to 31.5% for the corresponding period in 2019. The improvement in gross profit margin was mainly due to: (i) the improved economies of scale of property management services; and (ii) the government's reduction and exemption policies for employee social insurance and housing provident funds during the COVID-19 epidemic, which offset the increase in costs.

Profit and total comprehensive income for the six months ended 30 June 2020 amounted to RMB21.7 million, an increase of 623.3% compared to RMB3.0 million for the corresponding period in 2019, the increase was mainly attributable to: (i) the expansion of business scale and an increasing number of property management projects; (ii) the inclusion of profit of newly acquired subsidiary, Shanghai Tongjin; and (iii) the inclusion of listing-related expenses for the six months ended 30 June 2019.

The board of directors (the “**Board**” and “**Directors**” respectively) of Hevol Services Group Co. Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”), together with the comparative figures for the corresponding period of 2019, as follows, the results have not been audited:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	160,413	121,063
Cost of sales		<u>(105,727)</u>	<u>(82,951)</u>
Gross profit		54,686	38,112
Other income	5	3,068	5,696
Administrative expenses		(27,783)	(18,515)
Listing-related expenses		–	(15,417)
Finance costs	6(a)	<u>(110)</u>	<u>–</u>
Profit before income tax	6(b)	29,861	9,876
Income tax expense	7	<u>(8,137)</u>	<u>(6,870)</u>
Profit and total comprehensive income for the period		<u>21,724</u>	<u>3,006</u>
Profit and total comprehensive income for the period attributable to:			
Equity shareholders of the Company		21,020	3,006
Non-controlling interests		<u>704</u>	<u>–</u>
		<u>21,724</u>	<u>3,006</u>
Earnings per share attributable to equity shareholders of the Company (<i>expressed in RMB cents per share</i>)			
Basic and diluted	9	<u>5.21</u>	<u>1.00</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	13,556	6,806
Intangible assets		9,528	2,657
Investment properties		30,360	30,902
Goodwill		20,727	–
Deposits	11	977	–
Deposit paid for acquisition of subsidiaries	11	–	24,875
Deferred tax assets		5,382	2,726
		80,530	67,966
Current assets			
Inventories		194	106
Trade and other receivables	11	124,654	38,755
Bank balances and cash		297,397	199,829
		422,245	238,690
Current liabilities			
Contract liabilities		81,885	58,297
Trade and other payables	12	115,650	73,935
Lease liabilities		2,186	1,918
Income tax liabilities		10,590	1,262
		210,311	135,412
Net current assets		211,934	103,278
Total assets less current liabilities		292,464	171,244
Non-current liabilities			
Lease liabilities		1,364	2,188
Deferred tax liabilities		6,718	4,600
		8,082	6,788
Net assets		284,382	164,456
EQUITY			
Share capital	13	34	28
Reserves		277,372	164,428
Equity attributable to equity shareholders of the Company		277,406	164,456
Non-controlling interests		6,976	–
Total equity		284,382	164,456

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

Hevol Services Group Co. Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company and its subsidiaries (collectively, the “**Group**”) are principally engaged in the provision of property management services and related value-added services in the People’s Republic of China (the “**PRC**”).

In the opinion of the directors, the immediate and ultimate holding company of the Company is Brilliant Brother Group Limited, a company incorporated in the British Virgin Islands (“**BVI**”). The controlling shareholder of the Group is Mr. Liu Jiang (“**Mr. Liu**” or the “**Controlling Shareholder**”).

This interim condensed consolidated financial information (the “**Interim Financial Information**”) is presented in Renminbi (“**RMB**”), unless otherwise stated. The Interim Financial Information was approved for issue by the board of directors on 28 August 2020 and has not been audited.

2. BASIS OF PREPARATION

This Interim Financial Information has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “**IASB**”). The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

The Group has not early adopted any International Financial Reporting Standards (“**IFRSs**”) that has been issued but is not yet effective. The accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2019 except for (a) the adoption of new accounting policies as a result of the acquisitions of subsidiaries as detailed in note 16; (b) the adoption of the new and amended IFRSs; and (c) issued but not yet effective IFRSs as set out below:

- (a) **Accounting policies not included in the Group’s annual financial statements for the year ended 31 December 2019**

Basis of consolidation

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the condensed consolidated statement of financial position within equity, separately from the equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the condensed consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and equity shareholders of the Company.

(i) *Business combinations*

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as gain on bargain purchase.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is required (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

Impairment on goodwill

Goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired.

For the purpose of assessing impairment, goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment loss recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to other assets in the cash-generating units, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

Intangible assets – Customers Relationship

Customers relationship is amortised from the date of acquisition over its estimated useful lives of 6 years.

(b) New and amended IFRSs adopted as at 1 January 2020

In the current period, the Group has applied for the first time the new and amended IFRSs, which are relevant to the Group's operations and effective for the Group's Interim Financial Information for the annual period beginning on 1 January 2020.

Amendments to IFRS 3	Definition of Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material

The adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

(c) Issued but not yet effective IFRSs

At the date of authorisation of these Interim Financial Information, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IFRS 17	Insurance Contracts ²
Amendments to IFRS 3	Reference to the Conceptual Framework ⁵
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IFRS 16	Covid-19-Related Rent Concessions ¹
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use ³
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020 ³

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective date not yet determined

⁵ Effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The new and amended IFRSs are not expected to have a material impact on the Group's condensed consolidated interim financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019 except for the following:

Estimation uncertainties – Impairment of goodwill

Determine whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate, the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. As at 30 June 2020, the carrying amount of goodwill was RMB20,727,000 (As at 31 December 2019: RMBNil).

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of property management services and related valued-added services in the PRC. This operating segment has been identified on the basis of internal management reports reviewed by the chief operating decision-makers (the "CODM"), being the executive directors of the Group. The CODM reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regard that there is only one segment which is used to make strategic decisions.

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from external customers and recognised over time		
Property management services	120,673	82,884
Community value-added services	24,247	26,595
Value-added services to non-property owners	15,493	11,584
	<u>160,413</u>	<u>121,063</u>

Geographical information

The major operating entities of the Group are domiciled in the PRC. As at 30 June 2020 and 31 December 2019, substantially all of the non-current assets (other than deferred tax assets) of the Group were located in the PRC.

Information about major customers

For the six months ended 30 June 2020, revenue from companies controlled by the Controlling Shareholder contributed 9.5% (six months ended 30 June 2019: 14.2%) of the Group's revenue. Other than companies controlled by the Controlling Shareholder, the Group had a large number of customers and none of whom contributed 10% or more of the Group's revenue.

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	416	170
Exchange gain	417	–
Reversal of expected credit loss allowance (“ECL allowance”) on trade and other receivables	–	4,120
Unconditional government subsidy income	2,016	1,258
Sundry income	219	148
	<u>3,068</u>	<u>5,696</u>

6. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Finance costs		
Interest expenses on lease liabilities	<u>110</u>	<u>–</u>
(b) Other items		
Amortisation of intangible assets	799	70
Depreciation of property, plant and equipment		
– Owned assets	656	449
– Right-of-use assets	1,131	468
Depreciation of investment properties	542	543
ECL allowance on trade receivables (note 11)	1,983	–
Loss on disposal of property, plant and equipment	27	16
Write-off of intangible assets	–	1
Lease charges:		
– Short term leases and leases with lease term shorter than 12 months as at initial application of IFRS 16	<u>60</u>	<u>73</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax – PRC enterprise income tax		
Current period	<u>8,760</u>	<u>4,214</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(623)</u>	<u>2,656</u>
Total income tax expense	<u><u>8,137</u></u>	<u><u>6,870</u></u>

Notes:

(a) CAYMAN ISLANDS INCOME TAX

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and accordingly, is exempted from Cayman Islands income tax.

(b) BVI INCOME TAX

Pursuant to the relevant rules and regulations of BVI, the Group is not subject to any income tax in BVI for the six months ended 30 June 2020 and 2019.

(c) HONG KONG PROFITS TAX

No Hong Kong profits tax has been provided as the Group did not derive any assessable profit arising in Hong Kong for the six months ended 30 June 2020 and 2019.

(d) PRC ENTERPRISE INCOME TAX

The income tax provision of certain PRC entities of the Group has been calculated at the statutory tax rate of 25% on the estimated assessable profits for the reporting period, based on the existing legislation, interpretations and practices in respect thereof.

The preferential income tax rate applicable to certain of the Group's PRC entities within the scope of the China's Western Development Program was 15% for the six months ended 30 June 2020 and 2019.

Pursuant to the relevant laws and regulation in the PRC, certain of the Group's PRC entities which are qualified as small low-profit enterprises enjoyed a preferential tax rate of 20% for the six months ended 30 June 2020 and 2019. In addition, in accordance with the "Notice on Preferential Income Tax Policies Applicable to Small Low-profit Enterprises", the small and low-profit enterprises with annual taxable income of less than RMB1,000,000 for the six months ended 30 June 2020 and 2019, were also entitled a tax concession for 75% of its taxable income.

(e) PRC WITHHOLDING INCOME TAX

According to the relevant laws and regulations in the PRC, the Group is also liable to a 10% withholding tax on dividends to be distributed from the Group's foreign-invested enterprises in the PRC in respect of its profits generated from 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020. In 2019, a dividend of RMB25,400,000 had been declared, approved and paid to its then shareholders.

9. EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, the number of ordinary shares has been adjusted retrospectively for the effect of the Capitalisation Issue (as defined and detailed in note 13(i)) as if the Capitalisation Issue had been completed on 1 January 2019.

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit attributable to equity shareholders of the Company (RMB'000)	21,020	3,006
Number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	403,094	300,000
Basic earnings per share (expressed in RMB cents per share)	5.21	1.00

b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2020 and 2019 equals the basic earnings per share as there were no dilutive potential ordinary shares in existence during the periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group had an addition of property, plant and equipment with a cost of RMB606,000 (six months ended 30 June 2019: RMB318,000) and addition of RMB7,612,000 by the acquisitions of subsidiaries (note 16). Items of property, plant and equipment with total carrying amount of approximately RMB27,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB16,000).

Included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	As at	As at
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Office premises	2,956	3,441
Heating facility	403	604
Motor vehicle	100	–
	3,459	4,045

During the six months ended 30 June 2020, the total additions to right-of-use assets included in property, plant and equipment amounted to RMB346,000 (six months ended 30 June 2019: RMB1,959,000).

11. TRADE AND OTHER RECEIVABLES

		As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Trade receivables			
– Third parties	(a)	88,529	36,111
– Related parties		<u>22,955</u>	<u>4,104</u>
		<u>111,484</u>	<u>40,215</u>
Less: ECL allowance of trade receivables		<u>(21,441)</u>	<u>(10,847)</u>
		<u>90,043</u>	<u>29,368</u>
Other receivables			
Deposits, prepayment and other receivables		22,042	28,518
Payment on behalf of property owners		10,801	5,550
Advances to employees		2,423	194
Amounts due from related parties		<u>322</u>	<u>–</u>
		35,588	34,262
Less:			
Deposit paid for acquisition of subsidiaries included in non-current assets		–	(24,875)
Deposits, non-current portion		<u>(977)</u>	<u>–</u>
		<u>34,611</u>	<u>9,387</u>
		<u>124,654</u>	<u>38,755</u>

The directors of the Group considered that the fair values of trade and other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

a) **Trade receivables**

Trade receivables mainly arise from property management services, community value-added services and value-added services to non-property owners.

Property management services income are received in accordance with the term of the relevant property service agreements. Service income is due for payment upon rendering of services.

The ageing analysis of trade receivables based on invoice date, net of ECL allowance, is as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
0 – 90 days	47,018	11,772
91 – 180 days	17,358	4,121
181 – 365 days	9,519	5,262
1 to 2 years	7,379	3,727
Over 2 years	8,769	4,486
	<u>90,043</u>	<u>29,368</u>

The movement in the provision for impairment of trade receivables is as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Balance at the beginning of the period/year	10,847	13,636
Acquisitions of subsidiaries	8,611	–
ECL allowance recognised/(reversed) during the period/year	<u>1,983</u>	<u>(2,789)</u>
Balance at the end of the period/year	<u>21,441</u>	<u>10,847</u>

12. TRADE AND OTHER PAYABLES

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Trade payables		
– Third parties	(a) <u>19,016</u>	<u>10,513</u>
Other payables		
Accrued charges and other payables	23,122	19,207
Amounts collected on behalf of property owners	40,207	20,997
Other tax liabilities	11,387	3,763
Staff costs and welfare accruals	20,997	18,147
Amounts due to related parties	<u>921</u>	<u>1,308</u>
	<u>96,634</u>	<u>63,422</u>
	<u>115,650</u>	<u>73,935</u>

(a) Trade Payables

The Group was granted by its suppliers credit periods ranging from 30 to 90 days. The ageing analysis of trade payables based on invoice date is as follows:

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
0-30 days	12,006	9,000
31-180 days	5,636	952
181-365 days	890	6
Over 1 year	<u>484</u>	<u>555</u>
	<u>19,016</u>	<u>10,513</u>

13. SHARE CAPITAL

	Number of shares	Nominal value of shares <i>United States dollars</i> ("US\$")
Authorised:		
<i>Ordinary shares of the Company:</i>		
Ordinary shares at 31 December 2019, 1 January 2020 and 30 June 2020	5,000,000,000	50,000

	<i>Notes</i>	Number of shares	Nominal value of shares <i>US\$</i>	Equivalent nominal value of shares <i>RMB'000</i>
Issued and fully paid:				
<i>Ordinary shares of the Company:</i>				
As at 1 January 2019		104,734	1	–*
Capitalisation issue	<i>(i)</i>	299,895,266	2,999	21
Issuance of new shares in connection with the listing of the Company's shares	<i>(ii)</i>	100,000,000	1,000	7
At 31 December 2019 (audited) and 1 January 2020		400,000,000	4,000	28
Issue of shares upon placement of shares	<i>(iii)</i>	80,000,000	800	6
At 30 June 2020 (unaudited)		480,000,000	4,800	34

* The balance represents amount less than RMB1,000.

Notes:

- (i) Pursuant to a shareholders resolution dated 14 June 2019, and conditional on the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the proposed share offering described in the Prospectus dated 27 June 2019, the Company capitalised an amount of approximately US\$2,999 (equivalents to RMB21,000), standing to the credit of its share premium account and to appropriate such amount as capital to pay up to 299,895,266 shares in full at par (the "Capitalisation Issue"). The Capitalisation Issue was completed on 12 July 2019. These shares rank pari passu with the existing shares in all respects.
- (ii) On 12 July 2019, upon the Listing, the Company issued 100,000,000 new ordinary shares at an issue price of HK\$1.28 each, and raised gross proceeds of approximately HK\$128,000,000 (equivalents to RMB112,459,000), of which approximately RMB7,000 was credited to share capital account and the balance of RMB112,452,000 was credited to the share premium account of the Company. These shares rank pari passu with the existing shares in all respects.

Share issuance expenses mainly include share underwriting commission, lawyers' fees, reporting accountant's fee and other related costs associated with the Listing. Incremental costs that are directly attributable to the issue of the new shares amounting to RMB16,502,000 was treated as a deduction against the share premium account arising from the issuance.

- (iii) On 15 June 2020, the Company entered into a placing agreement with a placing agent in respect of the placing of up to 80,000,000 new shares at an issue price of HK\$1.28 per share. On 24 June 2020, the placing was completed and 80,000,000 new shares were placed by the placing agent to not less than six places at an issue price of HK\$1.28 per share resulting in raising proceeds, before expenses, of HK\$102,400,000 (equivalents to RMB93,330,000), of which RMB6,000 was credited to the share capital account and RMB93,324,000 was credited to the share premium account. The related transaction costs amounted to RMB1,400,000 have been recorded in the share premium account.

14. SHARE OPTION SCHEME

On 14 June 2019 (the “**Adoption Date**”), the Company adopted a share option scheme (the “**Share Option Scheme**”). The purpose of the Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage the selected participants to work towards enhancing the value of the Company and the shareholders as a whole.

The Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless terminated earlier by the shareholders in general meeting.

The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue.

No option of the Company was granted to the Company’s employees and other eligible participants since the Adoption Date and up to the date of this Interim Financial Information.

15. COMMITMENTS

a) Lease commitments

As lessor

At the reporting date, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	As at 30 June 2020 <i>RMB’000</i> (Unaudited)	As at 31 December 2019 <i>RMB’000</i> (Audited)
Within one year	686	686
In the second to fifth years	2,743	2,743
After five years	686	1,029
	<u>4,115</u>	<u>4,458</u>

As lessee

At the reporting date, the lease commitments for short-term leases are as follows:

	As at 30 June 2020 <i>RMB’000</i> (Unaudited)	As at 31 December 2019 <i>RMB’000</i> (Audited)
Within one year	<u>3</u>	<u>60</u>

b) Capital commitments

As at 31 December 2019, the Group had capital commitment of RMB4,715,000 in respect of acquisition of Shanghai Tongjin Property Management Services Co. Ltd (“**Shanghai Tongjin**”) (上海同進物業服務有限公司). The acquisition of Shanghai Tongjin was completed on 22 January 2020 and the details were set out in note 16.

16. ACQUISITIONS OF SUBSIDIARIES

(i) Subsidiaries acquired

	Principal activities	Date of acquisition	Proportion of shares acquired	Cash consideration transferred RMB'000
Shanghai Tongjin	Provision of property management services and related value-added services	22 January 2020	70%	29,591
Shanghai Tongjia Property Management Services Co. Ltd (上海同嘉物業服務有限公司) ("Shanghai Tongjia")	Provision of property management services and related value-added services	3 June 2020	60%	3,750

The English names of the PRC companies referred to above in this note represent management's best effort in translating the Chinese names of those companies as no English names have been registered or available.

Shanghai Tongjin and Shanghai Tongjia were acquired to expand the Group's property management service portfolio and provide synergies to its existing property management business. Acquisition-related costs are insignificant.

(ii) Fair value of assets acquired and liabilities recognised at the respective date of the acquisitions

	Shanghai Tongjin RMB'000	Shanghai Tongjia RMB'000	Total RMB'000
Property, plant and equipment	7,607	5	7,612
Intangible assets	6,855	–	6,855
Deferred tax assets	2,155	–	2,155
Deposits	977	–	977
Trade and other receivables	22,963	720	23,683
Bank balances and cash	34,794	5,785	40,579
Contract liabilities	(5,294)	–	(5,294)
Trade and other payables	(48,883)	(423)	(49,306)
Lease liabilities	(200)	–	(200)
Income tax liabilities	(5,911)	(24)	(5,935)
Deferred tax liabilities	(2,240)	–	(2,240)
Total identifiable net assets acquired	12,823	6,063	18,886

(iii) Non-controlling interests

The non-controlling interests in Shanghai Tongjin and Shanghai Tongjia of 30% and 40% recognised at the respective acquisition dates, respectively, were measured by reference to the respective proportionate share of the recognised amounts of net assets of Shanghai Tongjin and Shanghai Tongjia amounted to RMB3,847,000 and RMB2,425,000, respectively.

(iv) **Goodwill arising on acquisition**

	Shanghai Tongjin	Shanghai Tongjia	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash consideration transferred	29,591	3,750	33,341
Non-controlling interests	3,847	2,425	6,272
Fair value of identifiable net assets acquired	<u>(12,823)</u>	<u>(6,063)</u>	<u>(18,886)</u>
Goodwill arising on acquisition	<u>20,615</u>	<u>112</u>	<u>20,727</u>

Goodwill arose in the acquisitions of Shanghai Tongjin and Shanghai Tongjia as the costs of the business combination included a control premium. In addition, the considerations paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Shanghai Tongjin and Shanghai Tongjia. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

(v) **Net cash inflow on acquisition of subsidiaries**

	<i>RMB'000</i>
Total cash considerations	33,341
Cash deposit paid as at 31 December 2019	(24,875)
Bank balances and cash acquired	<u>(40,579)</u>
	<u>(32,113)</u>

(vi) **Impact on acquisitions on the results of the Group**

Included in the profit for the six months ended 30 June 2020 is RMB2,713,000 attributable to the additional business generated by Shanghai Tongjin, and Nil attributable to Shanghai Tongjia. Revenue for the six months ended includes RMB35,618,000 in respect of Shanghai Tongjin and Nil in respect of Shanghai Tongjia.

If the acquisitions had occurred on 1 January 2020, the Group's revenue and profit for the six months ended 30 June 2020 would have been RMB192,217,000 and RMB23,524,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is it intended to be a projection of future results.

17. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Interim Financial Information during the period, the Group had the following material transactions with related parties:

- (a) During the period, the transactions with related parties of the Group carried in the ordinary course of business were as follows:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Companies controlled by Mr. Liu Jiang		
Provision of property management and value-added services	15,253	17,241
Lease payment	411	–
	<u>15,664</u>	<u>17,241</u>

- (b) **Key management personnel remuneration**

Key management of the Group are members of the board of directors and senior management. Included in employee benefit expenses are key management personnel remuneration which includes the following expenses:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, bonus and allowances	1,866	782
Retirement benefit scheme contributions	125	125
	<u>2,000</u>	<u>907</u>

18. NON ADJUSTING EVENTS AFTER THE REPORTING DATE

Following the COVID-19 outbreak in early 2020, a series of additional precautionary and control measures have been implemented by the Group.

In light of the negative impact brought upon by the COVID-19 outbreak, it may lead to increase of costs incurred by additional hygiene and epidemic prevention measures when rendering services, as well as decrease of revenue from community value-added services due to the restrictions and controls over community activities.

The Group will pay close attention to the development of the COVID-19 outbreak and its impact and will continue to perform relevant assessments and take proactive measures as appropriate.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors, I am pleased to present the interim results of the Company for the six months ended 30 June 2020 (the “**Results Period**”). In the first half of 2020, the Group was committed to the prevention and control works of COVID-19 epidemic. Meanwhile, the scale of business continued to expand and the growth in level of results improved.

The assault of COVID-19 epidemic arrived suddenly in the New Year's Eve. The Group initiated the emergency management protocol immediately. Our employees from all levels have always stayed on the front line of epidemic prevention and control, actively cooperated with the government departments for various prevention and control works, protected the safety of the property owners and facilitated the lives of the property owners. The Group is responsible for and committed to anti-epidemic material reserves, closed community management, entry and exit registration and tracking, environmental disinfection, procurement of living supplies, advertisement of epidemic prevention and control, education and other aspects, thus gaining ample recognition from various property owners and government departments as well as demonstrating the responsibility of the Group.

RESULTS REVIEW

In 2020, the Group was ranked 40th among the China Top 100 Property Management Enterprises (中國物業服務百強企業) evaluated by the China Index Academy (“**China Index Academy**”), an increase of 45 ranks from 85th in 2015, and has become one of the China Top 100 Property Management Enterprises with the fastest progress. As at 30 June 2020, the Group achieved total contracted gross floor area (“**GFA**”) of 14.6 million sq.m., representing an increase of 78.0% compared to the same period in 2019. This is a new era of the Group's expansion. The number of property management projects of the Group increased from 36 at the beginning of the year to 87. From year to date, the number of cities with our service coverage increased from 11 at the beginning of the year to 21. As at 30 June 2020, 35.3% of the contracted GFA are attributable to third party property developers, representing a significant increase compared to the beginning of the year.

For the six months ended 30 June 2020, the Group achieved revenue of RMB160.4 million, an increase of 32.5% over the same period in 2019, and gross profit of RMB54.7 million, an increase of 43.6% over the same period in 2019. For the six months ended 30 June 2020, profit increased by 623.3% from RMB3.0 million for the same period in 2019 to RMB21.7 million. The above results were mainly attributable to the expanded business scale, the contribution brought by the acquisition of 70% equity interest of Shanghai Tongjin Property Management Services Co. Ltd. (上海同進物業服務有限公司), and the lack of listing-related expenses during the Results Period.

The scope of value-added services to non-property owners was extended. In the first half of the year, in addition to the basis of original field distribution services, the Group added developer value-added services such as management of ancillary properties, examination services, pre-move-in cleaning and parking lot consignment. The scope of services covered the whole and entire process of property management services.

The quality of service is the lifeline of a corporation. In the first half of the year, the Group optimised the system and service standards, obtained energy management system and information safety management system certification, strengthened the standardised service system, and established the three-level quality supervision system, leading to further enhancement of quality of service.

In order to adapt to the needs of business development, the Group is more focused on team building of talents. In terms of internal selection of talents, the Group had optimised the mechanism of internal selection, discovering, selecting and training management staff. In terms of external introduction of talents, the Group raised the effort of recruiting outstanding talents in the industry, succeeding in introducing, retaining and making good use of the talents, while continuously optimising the human resource structure of the Group. During the Results Period, the Group initiated more than 10 online and offline special training, endeavouring to build a learning organisation.

FUTURE PROSPECT

Commitment in continual expansion of management scale is the core development strategy of the Group. Regarding the region of expansion, the Group relies on the cities where the existing management projects are located, with increased effort to expand into regions such as the Yangtze River Delta, the Pearl River Delta and Eastern China.

The Group adopted market expansion as the main expansion strategy, with joint venture cooperation and merger and acquisition as supporting expansion strategies: (1) in the property management project model, the Group undertakes the property management rights of management projects through negotiation, tender and other methods, and provides full cycle property management services; (2) in the joint venture cooperation model, the Group fully develops the advantage of the partners in terms of management project resources, achieving resource integration and value creation with the professional property management service capability of the Group accumulated in the past 18 years. From year to date, the Group established a number of joint ventures with local influential property developers, real estate agents and enterprises with industrial resources in Beijing, Shanghai, Shenzhen, Changsha and other regions. As the business of the joint ventures will gradually develop, the Group will obtain more industrial management project resources locally, such as residence, offices, industry parks and public buildings. This will establish a solid foundation for the continual growth of the business of the Group; (3) in the merger and acquisition model, the Group selects property management projects with high quality property management companies, acquires property management enterprises with influential power within the region, create a scientific strategic roadmap, and quickly fill the focal empty spots in the market. The Group will continue to seek merger and acquisition business opportunities with high quality property management companies in order to further enhance the overall competitiveness of the Group.

Regarding the community value-added business, in addition to the commitment of traditional business such as space leasing, housekeeping, house agency and community stores, community education and training business will be the strategic business among the community value-added business. The Group will rely on the existing ancillary education resources of the managed community, and will initiate community education value-added business such as afterschool childcare, off-campus training and community winter and summer camping.

As the age of 5G arrived, the market demand for high quality and smart property management services has increased significantly. The “Smart Community” platform of the smart Group is a true mobile Internet property service cloud platform, capable of providing basic property management services, customer service tickets, patrol inspection, access control, data management and value-added services etc. In 2020, the Group established “400 customer service centers” through such platform, optimised the customer service orders, and developed quality inspection function and financial charging function, achieved standardisation of service quality inspection, service control and rectification, online collection of property management fees, and enhanced the management efficiency and service quality of property management operation. The Group will fully leverage on technological tools, integrate the resources of community operation services, and enhance the standard of property management services and profitability in the future.

Looking forward, China’s urbanisation provides enormous potential for the development of the property management industry. According to the China Index Academy, the size of the property management market is expected to reach RMB1 trillion in the future. As a well-known brand in the property management industry in China, the Group leverages on new technologies such as cloud computing, big data and the Internet of Things to transform and upgrade traditional property management services and improve the standards of property management services; and continuously integrates industry resources, expands management scale, enriches management models and creates diversified community value-added services by leveraging on the benefits of our listing status.

We always adhere to the core value of “Serving people with a shared passion” and the service concept of “Living a happy life with Hevol”. We strive for building a beautiful and happy life for each of our owners and create abundant results and rewards for our investors!

Liu Jiang

Chairman of Board of Directors

Hong Kong, 28 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The COVID-19 outbreak in early 2020 has had a devastating effect on the global economies. Trading, tourism, studying abroad and business activities have been severely affected. It brings the world to a grinding halt and the epidemic continues to spread and shows no signs of stopping abroad. On the contrary, the epidemic is now under control and the daily life of residents has gradually resumed to normal in mainland China. Commercial activities, catering, entertainment and shopping have gradually made a turn for the better. It is believed that China's export trade will take longer to come out of the difficulties and its economy will be dragged due to the events abroad. Nevertheless, the property management industry is less susceptible to the epidemic, and many of our peers have maintained a stable business growth. In addition, the social insurance and housing fund reduction and subsidy policies for the property management enterprises introduced by local governments have greatly relieved their pressure brought by labour costs during the epidemic, and by utilising the subsidy they can hire more staff for epidemic prevent and control in the community, thereby prevent a large-scale outbreak of epidemic in the community and make a contribution to society. After the outbreak of the epidemic, people have realised that property management services are closely related to their daily life in the crisis, and have increased their demand for quality property management services. Local governments have gradually paid attention to the importance of the property management industry to the society, thereby encouraging and supporting the development of local property management enterprises. The epidemic has nonetheless the rapid development of the property management industry. It is believed that, leveraging on the generally healthy cash flow, the industry will definitely have a brighter future and develop at a fast pace after the epidemic.

BUSINESS REVIEW

The Group entered into a sale and purchase agreement to acquire 70% equity interest of Shanghai Tongjin Property Management Services Co. Ltd. (上海同進物業服務有限公司) (“**Shanghai Tongjin**”) with a cash consideration of RMB29.6 million and the deal was completed on 22 January 2020. Shanghai Tongjin manages property management projects in Shanghai, Kunshan, Wuxi, Wuhu and Qinhuangdao. It has a professional property management team and has established a good relationship with a customers for many years. In addition, the Group acquired 60% equity interest of Shanghai Tongjia Property Management Services Co., Ltd. (上海同嘉物業服務有限公司) (“**Shanghai Tongjia**”) with a cash consideration of RMB3.8 million and the acquisition was completed on 3 June 2020. Through the marketing experience of the top management of Shanghai Tongjia, the Group can obtain property management projects in the Yangtze River Delta in the near future. After the acquisitions, total number of the Group's property management projects is increased to 61, the revenue-bearing GFA of properties under management is increased to 9.4 million sq.m.. The Group's coverage of geographical regions in China now include Northern China, Northeastern China, Southwestern China, Southern China and Eastern China. Acquisition is a cost-effective way to grow the Group's service offerings and property management portfolio in new geographic markets. The acquisitions can create synergies with the business of the Group by combining the existing strength and experience of Shanghai Tongjin and Shanghai Tongjia in property management in the Yangtze River Delta region. The Group will be able to further enhance its market share and brand influence and fill the market gap in the region, expand the scope and size of its property management business and improve its business growth and profitability.

The management of the Group strive to provide high-quality services to its customers through its standardised and smart management process which allows the Group to strengthen its operational efficiency and effective control over its costs. Through the provision of property management services, the Group has achieved revenue growth, expanded its business and established its loyal customer base, all of which serve as a solid foundation for the provision and further development of the Group's value-added services. The Group's community value-added services complement its property management services and enhance the satisfaction and loyalty of property owners and residents. The Group's value-added services to non-property owners complement its property management services through providing sales assistance services to property developers during the development and selling phase of their properties. The skills and knowledge that the Group acquire throughout the process help its management to understand the changing requirements for property management service providers. The Group has strong capabilities to provide service offerings which meet its customers' needs so as to diversify its revenue base and improve its market position

Property Management Services

The Group provides a range of property management services to property owners and residents, as well as property developers, including, security, cleaning, greening, gardening services as well as repair and maintenance services. The Group's property management portfolio focus on residential communities but also covers other types of properties such as commercial properties.

Geographic Coverage

The table below sets out the breakdowns of (i) revenue from property management services and (ii) revenue-bearing GFA by geographic regions which the Group has property management operation, for the periods indicated:

	Six months ended 30 June							
	2020				2019			
	Revenue (RMB'000)	(%)	Revenue-bearing GFA ('000 sq.m.)	(%)	Revenue (RMB'000)	(%)	Revenue-bearing GFA ('000 sq.m.)	(%)
Northern China ⁽¹⁾	39,640	32.9	3,255	34.8	35,236	42.5	2,876	45.3
Northeastern China ⁽²⁾	6,803	5.6	588	6.3	6,224	7.5	477	7.5
Southwestern China ⁽³⁾	30,841	25.6	2,377	25.4	30,319	36.6	2,218	35.0
Southern China ⁽⁴⁾	12,007	9.9	781	8.3	11,105	13.4	776	12.2
Eastern China ⁽⁵⁾	31,382	26.0	2,355	25.2	-	-	-	-
Total	120,673	100.0	9,356	100.0	82,884	100.0	6,347	100.0

Notes:

- (1) "Northern China" includes Beijing, Tianjin, Tangshan and Qinhuangdao.
- (2) "Northeastern China" includes Dandong, Harbin and Shenyang.
- (3) "Southwestern China" includes Chongqing, Guiyang and Chengdu.
- (4) "Southern China" includes Sanya and Changsha.
- (5) "Eastern China" includes Shanghai, Kunshan, Wuxi and Wuhu.

The Group managed a diverse portfolio of properties, comprising primarily residential properties and to a lesser extent, non-residential properties. Non-residential properties include commercial properties and other types of public facilities. During the period, the Group generated the majority of its property management service revenue from managing residential properties, which will continue to account for a significant portion of its revenue stream in the near future. The table below sets out the breakdowns of its: (i) revenue generated from property management services by type of properties; and (ii) total revenue-bearing GFA by type of properties for the periods indicated:

	Six months ended 30 June							
	2020				2019			
	Revenue generated from property management services		Revenue-bearing GFA		Revenue generated from property management services		Revenue-bearing GFA	
<i>(RMB'000)</i>	<i>(%)</i>	<i>('000 sq.m.)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>('000 sq.m.)</i>	<i>(%)</i>	
Residential properties	112,829	93.5	8,901	95.1	76,296	92.1	6,014	94.8
Non-residential properties	7,844	6.5	455	4.9	6,588	7.9	333	5.2
Total	<u>120,673</u>	<u>100.0</u>	<u>9,356</u>	<u>100.0</u>	<u>82,884</u>	<u>100.0</u>	<u>6,347</u>	<u>100.0</u>

Community value-added services

As an extension of the Group's property management services business, it provides community value-added services to property owners and residents for the property management projects under the Group's management. The Group's community value-added services help to address the lifestyle and daily needs of the property owners and residents, to enhance their customer experience, satisfaction and loyalty, as well as to create a healthier and more convenient living community. The Group mainly provides three types of community value-added services, namely: (i) home-living services, (ii) leasing of car parking space, and (iii) leasing of common facilities.

The Group provides home-living services such as property repair and maintenance services, cleaning, interior decoration, collection of electricity tariffs, purchase assistance, as well as accommodation and catering services to property owners upon request. The Group also leases out common areas such as swimming pools, car parking spaces and advertising spaces to third party contractors to generate stable revenue stream for its business. The Group is devoted to cultivate a harmonious and closely-knitted community culture. The Group organises a wide range of community cultural activities on a regular basis, including community sports events, community carnivals, elderly care and community festival celebrations for residents in its property management projects.

For the six months ended 30 June 2019 and 2020, revenue generated from our community value-added services amounted to approximately RMB26.6 million and RMB24.2 million, respectively, representing approximately 22.0% and 15.1% of our total revenue for the same periods.

Value-added services to non-property owners

The Group is committed to expanding its value-added services to non-property owners and diversifying its sources of revenue. The Group offers comprehensive supporting services such as sales assistance services and management consultation services for the property development projects developed by property developers. For example, the Group provides display unit management services, market planning services and visitor reception services to property developers during the sales and marketing phase of these property management projects in order to facilitate the sale of those development projects. Provision of value-added services to non-property owners can help the Group to diversify its business segments, understand the needs of property developers and strengthen its knowledge on various aspects of property management.

OUTLOOK

Despite the challenges, the solid property management experience provides the Group with various development opportunities. Looking into the second half of 2020, it is expected that more new property management projects will be delivered compared to the second half of 2019. In addition, the Group has entered into the Supplemental Master Services Agreement with Hevol Real Estate Group that the Group will provide certain services to Hevol Real Estate Group from the second half year of 2020, in return a steady stream of income to the Group. The Group will actively cooperate with peers by setting up of new company to obtain the property management projects and enlarge its market share in the existing or new markets. Senior management of the Group expects that there will be a faster growth in the second half year of 2020. The Group will strive to maintain market-oriented operation, and establish a systematic and market-oriented business management system covering project management, operation standard, human resource deployment, and M&A company management. Facing the exceptional scale of development, the Group will overcome unfavourable factors restricting scale development through learning, training and innovation. The Group strives to maintain the quality of its property management services, develop its capability in offering high-end services, enhance customer management, cultivate professional talents, and satisfy the needs of customers. The Group will strengthen its financial and capital market building capability, and enhance its financial management efficiency and risk aversion ability. The Group will also improve its organisational execution capacity, aiming to create efficient management. The Company will persist in its transformation towards digital technology and smart operation, and continue to increase the recognition and reputation of the Company.

FINANCIAL REVIEW

Revenue

The Group derived revenue from: (i) property management services; (ii) community value-added services; and (iii) value-added services to non-property owners. Overall revenue increased by approximately RMB39.3 million, or approximately 32.5% from approximately RMB121.1 million to approximately RMB160.4 million for the six months ended 30 June 2020, such growth was primarily attributable to an increase in revenue from property management services resulted from an increase in the number of property management projects and an increase in revenue from acquisition of Shanghai Tongjin in January 2020.

The following table sets out a breakdown of the Group's total revenue by business segment for the periods indicated:

	Six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Property management services	120,673	75.2	82,884	68.4
Community value-added services	24,247	15.1	26,595	22.0
Value-added services to non-property owners	15,493	9.7	11,584	9.6
Total	<u>160,413</u>	<u>100.0</u>	<u>121,063</u>	<u>100.0</u>

Property management services

Property management services primarily include property management fees for providing security, cleaning and gardening and property repair and maintenance services to residential communities, commercial properties and public facilities. Revenue increased by approximately RMB37.8 million, or 45.6% from approximately RMB82.9 million for the six months ended 30 June 2019 to approximately RMB120.7 million for the six months ended 30 June 2020. Such increase was primarily attributable to the increase in the total revenue-bearing GFA under management resulting from the business expansion through organic growth and acquisition of a subsidiary, Shanghai Tongjin in January 2020 with revenue-bearing GFA of approximately 2.4 million sq.m.. The Group's revenue-bearing GFA increased by approximately 49.2% from approximately 6.3 million sq.m. as at 30 June 2019 to approximately 9.4 million sq.m. as at 30 June 2020 and the number of property management projects increased from 34 to 61, respectively.

Community value-added services

Revenue from community value-added services is divided into three segments, including (i) home-living services, (ii) leasing of car parking space and (iii) leasing of common facilities, which amounted to approximately RMB10.9 million, RMB7.8 million and RMB5.5 million, respectively for the six months ended 30 June 2020. Revenue from home-living services, leasing of car parking space and leasing of common facilities amounted to approximately RMB13.6 million, RMB9.4 million and RMB3.6 million, respectively, for the six months ended 30 June 2019.

For the six months ended 30 June 2019 and 2020, revenue from community value-added services represented approximately 22.0% and approximately 15.1% of the Group's total revenue, respectively. The decrease of approximately RMB2.4 million or 9.0% from approximately RMB26.6 million to approximately RMB24.2 million was due to: (i) a decrease of home-living services resulted from a decrease in electricity tariff collection services by payment charges for electricity on behalf of commercial property owners as many shops were closed during the COVID-19 outbreak; and (ii) a decrease in revenue from leasing of car parking space resulted from the decreasing number of leased car-parking spaces.

Value-added services to non-property owners

The Group provides a wide range of value-added services to non-property owners including sales assistance services and management consultation services. Revenue from value-added services to non-property owners increased by approximately RMB3.9 million, or 33.6% from approximately RMB11.6 million for the six months ended 30 June 2019 to approximately RMB15.5 million for the six months ended 30 June 2020. The increase in revenue was due to Hevol Real Estate Group having more properties under development which reached the selling stages and required our sales assistance services for the six months ended 30 June 2020 compared to the corresponding period of 2019.

Cost of Sales

Cost of sales of the Group primarily comprises staff costs, sub-contracting costs, utility expenses, repairs and maintenance costs, material costs, sales taxes and others. Cost of sales increased by approximately RMB22.7 million or 27.3% from approximately RMB83.0 million for the six months ended 30 June 2019 to approximately RMB105.7 million for the six months ended 30 June 2020. This was mainly attributable to: (i) the increase of the Group's sub-contracting costs by approximately RMB14.5 million, or 50.4% for the period ended 30 June 2020 compared to the six months ended 30 June 2019, due to an increase in its revenue-bearing GFA under management resulting from the expansion of property management services business, and (ii) the increase of the Group's staff costs from approximately RMB23.7 million for the six months ended 30 June 2019 to approximately RMB29.2 million for the six months ended 30 June 2020 due to the increasing number of service employee headcount as a result of business expansion and acquisition of a subsidiary, Shanghai Tongjin in January 2020. The increase of cost of sales was substantially in line with the growth rate of revenue, primarily due to the parallel increase in the cost resulted from the Group's business expansion.

Gross Profit and Gross Profit Margin

The table below sets forth the Group's gross profit and gross profit margin by business segment for the periods indicated:

	Six months ended 30 June			
	2020		2019	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
Property management services	38,744	32.1	25,593	30.9
Community value-added services	13,521	55.8	10,722	40.3
Value-added services to non-property owners	2,421	15.6	1,797	15.5
Total	<u>54,686</u>	<u>34.1</u>	<u>38,112</u>	<u>31.5</u>

Overall gross profit of the Group increased by approximately RMB16.6 million, or 43.6% from approximately RMB38.1 million for the six months ended 30 June 2019 to approximately RMB54.7 million for the six months ended 30 June 2020. The overall gross profit margin increased from approximately 31.5% for the six months ended 30 June 2019 to approximately 34.1% for the six months ended 30 June 2020 mainly due to: (i) the economies of scale of property management services; and (ii) the government's reduction and exemption policies for employee social insurance and housing provident funds during the epidemic, which offset the increase in costs.

Property management services

Gross profit for the Group's property management services increased by approximately RMB13.1 million, or 51.2% from approximately RMB25.6 million for the six months ended 30 June 2019 to approximately RMB38.7 million for the six months ended 30 June 2020, primarily attributable to: (i) an increase in revenue-bearing GFA as a result of an increasing number of property management projects by expansion and acquisition of a subsidiary, Shanghai Tongjin in January 2020 with revenue-bearing GFA of 2.4 million sq.m.; and (ii) an increasing level of the average charging rate of the Group's property management services. Gross profit margin of the Group's property management services increased from approximately 30.9% for the six months ended 30 June 2019 to approximately 32.1% for the six months ended 30 June 2020 was mainly due to the increase in average charging rate of our property management services compared to the corresponding period in 2019, and the government's reduction and exemption policies for employee social insurance and housing provident funds during the COVID-19 epidemic.

Community value-added services

Gross profit for the Group's community value-added services increased by approximately RMB2.8 million, or 26.2% from approximately RMB10.7 million for the six months ended 30 June 2019 to approximately RMB13.5 million for the six months ended 30 June 2020 due to the inclusion of gross profit of community value-added services of the Group's newly acquired subsidiary, Shanghai Tongjin and an increasing number of property management projects compared to the six months ended 30 June 2019. Gross profit margin increased from approximately 40.3% for the six months ended 30 June 2019 to approximately 55.8% for the six months ended 30 June 2020. This was due to the Group's strictly cost control and the government's reduction and exemption policies for employee social insurance and housing provident funds during the epidemic.

Value-added services to non-property owners

Gross profit for the Group's value-added services to non-property owners increased by approximately RMB0.6 million, or 33.3% from approximately RMB1.8 million for the six months ended 30 June 2019 to approximately RMB2.4 million for the six months ended 30 June 2020. This was mainly attributable to an increase in number of property projects under development by Hevol Real Estate Group during the period, which reached the selling phases and required the Group's sales assistance services. Gross profit margin remained relatively stable, primarily because the relevant fee rates charged to property developers as well as the relevant sub-contracting costs and staff costs remained relatively stable due to market conditions.

Other Income

Other income amounted to approximately RMB3.1 million for the six months ended 30 June 2020, representing a decrease of approximately RMB2.6 million, or 45.6% compared to approximately RMB5.7 million for the six months ended 30 June 2019. The decrease was mainly due to the reversal of expected credit loss allowance on trade and other receivables amounted to approximately RMB4.1 million for the six months ended 30 June 2019, offset by an increase of unconditional government subsidy income amounted to approximately RMB2.0 million and of approximately RMB0.8 million during the six months ended 30 June 2020.

Administrative Expenses

Administrative expenses of the Group mainly include staff costs, travelling and entertainment expenses, professional fees, conference and training costs for its employees, telecommunication and utilities expenses and depreciation and amortisation. Administrative expenses amounted to approximately RMB27.8 million for the six months ended 30 June 2020, representing an increase of approximately RMB9.3 million, or approximately 50.3% compared to approximately RMB18.5 million for the six months ended 30 June 2019, primarily due to: (i) an increase in staff costs of approximately RMB4.7 million resulted from the increase in the business scale of the Group; (ii) an increase in professional fees of approximately RMB1.1 million in relation to annual audit, legal and financial consultancy after listing; (iii) the acquisition of Shanghai Tongjin and its subsidiaries; and (iv) ECL allowance on trade receivables amounted to approximately RMB2.0 million.

Income Tax Expense

Income tax expenses of the Group increased by approximately RMB1.2 million, or 17.4% from approximately RMB6.9 million for the six months ended 30 June 2019 to approximately RMB8.1 million for the six months ended 30 June 2020, primarily due to the increase of our taxable income and a decrease of origination and reversal of temporary differences.

Profit For The Period attributable to Equity Holders of the Company

Profit for the period attributable to equity holders of the Company increased by approximately RMB18.0 million, or 600.0% from approximately RMB3.0 million for the six months ended 30 June 2019 to approximately RMB21.0 million for the six months ended 30 June 2020, mainly attributable to: (i) the expansion of business scale and an increasing number of property management projects; (ii) the inclusion of profit of newly acquired subsidiary, Shanghai Tongjin; and (iii) the inclusion of listing-related expenses for the six months ended 30 June 2019.

Intangible Assets

Intangible assets of the Group increased to approximately RMB9.5 million as at 30 June 2020 arising from the acquisition of Shanghai Tongjin, compared to approximately RMB2.7 million as at 30 June 2019.

Investment Properties

Investment properties which consisted of certain car parking spaces and shop premises, decreased from approximately RMB30.9 million as at 31 December 2019 to approximately RMB30.4 million as at 30 June 2020, mainly due to depreciation.

Goodwill

Goodwill in the acquisitions of Shanghai Tongjin and Shanghai Tongjia as at 30 June 2020 amounted to approximately RMB20.6 million and approximately RMB0.1 million, respectively (30 June 2019: Nil).

Trade and Other Receivables

Trade and other receivables include trade receivables, prepayments and other receivables. Trade receivables are mainly related to property management services as well as value-added services. Trade receivables of the Group increased from approximately RMB29.4 million as at 31 December 2019 to approximately RMB90.0 million as at 30 June 2020, primarily due to the inclusion of trade receivables of Shanghai Tongjin and delayed payment of trade receivables by related parties. Other receivables increased from approximately RMB34.3 million as at 31 December 2019 to approximately RMB35.6 million as at 30 June 2020, mainly due to an increase in payment on behalf of property owners of approximately RMB5.2 million, offset by the decrease of deposit paid for acquisitions of subsidiaries of approximately RMB24.9 million.

Trade and Other Payables

Trade payables of the Group increased from approximately RMB10.5 million as at 31 December 2019 to approximately RMB19.0 million as at 30 June 2020, primarily due to an increase in purchase of subcontracting services, materials and utilities for the Group's business expansion and inclusion of trade payables of Shanghai Tongjin.

Other payables mainly consist of accrued staff costs, deposits received and amounts collected on behalf of property owners. The increase of other payables of the Group from approximately RMB63.4 million as at 31 December 2019 to approximately RMB96.6 million as at 30 June 2020 was primarily due to: (i) an increase of amounts collected on behalf of property owners to pay the utilities of approximately RMB19.2 million resulted from an increasing number of property management projects and inclusion of balances of Shanghai Tongjin during the period, and (ii) an increase of other tax liabilities of approximately RMB7.6 million which to be settled in the following month.

Contract Liabilities

The Group's contract liabilities mainly arise from advance payments made by customers while the underlying property management services are yet to be provided. Contract liabilities of the Group increased from approximately RMB58.3 million as at 31 December 2019 to approximately RMB81.9 million as at 30 June 2020, representing an increase of approximately RMB23.6 million, primarily due to: (i) the managing of an increasing number of property management projects, and (ii) the inclusion of contract liabilities of Shanghai Tongjin which amounted to approximately RMB21.7 million.

Liquidity, Financial and Capital Resources

As at 30 June 2020, the Group's bank balances and cash increased by approximately RMB97.6 million from approximately RMB199.8 million as at 31 December 2019 to approximately RMB297.4 million as at 30 June 2020, primarily due to the issuance of 80 million ordinary Shares on 24 June 2020 at an issue price of HK\$1.28 per Share with net proceeds amounted to approximately RMB92.0 million. The Group's financial position remained solid. As at 30 June 2020, the Group's net current assets increased from approximately RMB103.3 million as at 31 December 2019 to approximately RMB211.9 million as at 30 June 2020. As at 30 June 2020, the Group's current ratio was 2.01 times compared to 1.76 times as at 31 December 2019. The Group did not have any borrowings as at 30 June 2020.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies to ensure the liquidity requirements from daily operation as well as capital expenditures are met. The Board closely monitors the Group's liquidity positions, while surplus cash will be invested appropriately with the consideration of the credit risks, liquidity risks and market risks of the financial instruments.

Foreign Exchange Risk

The Group is principally focused on its business in the PRC. Except for bank deposits denominated in foreign currencies, the Group was not subject to any other material risk directly relating to foreign exchange fluctuation. During the period, the Directors expected that fluctuations of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor the foreign exchange exposure, and take prudent measures to reduce foreign exchange risks.

Employees and Remuneration Policies

The Group had approximately 1,407 employees as at 30 June 2020 compared to 996 employees as at 31 December 2019. For the six months ended 30 June 2020, the Group's total staff costs were approximately RMB45.2 million. The remuneration package of the employees included salary, bonus and other cash subsidies. Employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions within the general framework of the Group's salary and bonus system. The Group is subject to social insurance contribution plans or other pension schemes prescribed by the local governments and is required to pay on behalf of the employees, a monthly social insurance fund covering pension fund, medical insurance, work-related injury insurance, maternity insurance and unemployment insurance, the housing provident fund, or other mandatory provident fund schemes on behalf of the employees. The Group hosted comprehensive internal staff training programmes for our staff to improve and enhance their technical and service skills, as well as to provide them with the knowledge of industry quality standards and work place safety standards. The Group provided orientation training to new hires and introduce them to our corporate culture to understand our service standards and procedures. The Group also provided training courses and regular seminars on various aspects of our business operations, such as quality control and customer relationship management, to our employees. The Group had also adopted a share option scheme, details of which are disclosed in the paragraph headed "Share Option Scheme" in this announcement.

INTERIM DIVIDEND

The Board resolved that no interim dividend shall be declared for the six months ended 30 June 2020.

CHARGE ON ASSETS

As at 30 June 2020, the Group did not have any charges on its assets (31 December 2019: Nil).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities (31 December 2019: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintain high standards of corporate governance by focusing on principles of integrity, accountability, transparency independence, responsibility and fairness to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

The Company has adopted Corporate Governance Code (the “**CG code**”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its own code of corporate governance. The Company has complied with all applicable code provisions set out in the CG Code during the six months ended 30 June 2020. The Company will continue to review and enhance its corporate governance practices to ensure the compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model code**”) as set out in Appendix 10 to the Listing Rules as a code of conduct for Directors to conduct securities transactions. Having made specific inquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the six months ended 30 June 2020.

USE OF NET PROCEEDS FROM LISTING

With the Shares of the Company listed on the Stock Exchange on 12 July 2019, the net proceeds from the Global Offering were approximately HK\$75.8 million (equivalent to approximately RMB66.6 million), which will be utilised for the purposes as set out in the Company’s prospectus dated 27 June 2019 (the “**Prospectus**”). As at 30 June 2020, RMB9.1 million, or 13.7%, of the net proceeds from the listing have been utilised. As at the date of this announcement, the Directors of the Company anticipate that such proceeds will be applied in the manner consistent with that in the Group’s prospectus.

Set out below is the actual utilisation of the net proceeds from the listing date on 12 July 2019 up to the date of this announcement:

Net proceeds (in RMB million)

Item	Percentage	Available	Utilised	Unutilised	Expected time of use of unutilised proceeds
1 Acquisition of other property management companies	51.8%	34.5	3.8	30.7	On or before 31 December 2022
2 Bidding for new property management projects	7.7%	5.1	0.4	4.7	On or before 31 December 2022
3 Investment in advanced technologies and smart communities	23.1%	15.4	3.9	11.5	On or before 31 December 2022
4 Expansion of value added services business segment	14.4%	9.6	0.1	9.5	On or before 31 December 2022
5 Working capital and general corporate purpose	3.0%	2.0	0.9	1.1	On or before 31 December 2022
	<u>100.0%</u>	<u>66.6</u>	<u>9.1</u>	<u>57.5</u>	

Proceeds from the placing of shares

On 24 June 2020, the Company issued 80,000,000 ordinary shares (the “**Placing Shares**”) at an issue price of HK\$1.28 per share. As a result, the Company received a net proceed of approximately HK\$100,864,000 (equivalent to RMB91,930,000) after deduction of the placing commission and other related expenses. Such proceeds will be used for potential future mergers and acquisitions and general working capital. As at the date of this announcement, the net proceeds have not been used. The Company will continue to seek suitable targets for mergers and acquisitions using a prudent approach to utilise the net proceeds effectively and efficiently for the long term benefit and development of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

AUDIT COMMITTEE

The Audit Committee assists the Board in providing an independent view of the effectiveness of the financial reporting process, risk management and internal control systems of the Group, performing other duties and responsibilities as may be assigned by the Board from time to time.

The audit committee of the Company currently comprises three independent non-executive Directors, namely Dr. Chen Lei, Mr. Fan Chi Chiu and Mr. Qian Hongji. The audit committee had reviewed the unaudited interim results for the six months ended 30 June 2020 and has discussed, among other things, the matters of risk management and internal control with the management.

PUBLICATION OF INTERIM RESULTS AND 2020 INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.hevolwy.com.cn), and the interim report of the Group for the six months ended 30 June 2020 containing all information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Hevol Services Group Co. Limited
Wang Wenhao
Executive Director

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely Ms. Hu Hongfang and Mr. Wang Wenhao, two non-executive Directors, namely Mr. Liu Jiang and Mr. Zhou Wei, and four independent non-executive Directors, namely Dr. Chen Lei, Mr. Fan Chi Chiu, Dr. Li Yongrui and Mr. Qian Hongji.