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 2022

FINANCIAL HIGHLIGHTS

- Total revenue of the Group for the six months ended 30 June 2022 increased by 50.5% to approximately RMB463.3 million from approximately RMB307.9 million for the six months ended 30 June 2021.

- Gross profit of the Group for the six months ended 30 June 2022 increased by 36.5% to approximately RMB150.8 million from approximately RMB110.5 million for the six months ended 30 June 2021.

- Gross profit margin decreased to 32.6% for the six months ended 30 June 2022 from 35.9% for the six months ended 30 June 2021.

- Profit after income tax for the six months ended 30 June 2022 increased by approximately RMB23.6 million, or 54.0% from approximately RMB43.6 million for the six months ended 30 June 2021 to approximately RMB67.2 million for the six months ended 30 June 2022. Net profit margin increased to approximately 14.5% for the six months ended 30 June 2022 compared to approximately 14.2% for the six months ended 30 June 2021.

- Earnings per share attributable to equity shareholders of the Company amounted to RMB7.92 cents for the six months ended 30 June 2022 (Six months ended 30 June 2021: RMB6.44 cents).

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 2022 (the "**Reporting Period**"), together with the comparative figures for the corresponding period of 2021, 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 2022

		Six months ended 30 June	
		2022	2021
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**463,275**	307,859
Cost of sales		**(312,442)**	(197,328)
Gross profit		**150,833**	110,531
Other income	*5*	**4,430**	4,371
Expected credit loss ("**ECL**") allowance on trade and other receivables		**(8,122)**	(7,561)
Administrative expenses		**(66,407)**	(54,711)
Finance costs	*6(a)*	**(275)**	(60)
Profit before income tax	*6(b)*	**80,459**	52,570
Income tax expense	*7*	**(13,280)**	(8,937)
Profit for the period		**67,179**	43,633
Other comprehensive income for the period, net of nil tax			
Items that will not be reclassified subsequently to profit or loss:			
– Exchange differences on translation of the Company's financial statements into its presentation currency		**1,127**	405
Total comprehensive income for the period		**68,306**	44,038
Profit for the period attributable to:			
Equity shareholders of the Company		**44,348**	35,094
Non-controlling interests		**22,831**	8,539
		67,179	43,633
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		**45,475**	35,499
Non-controlling interests		**22,831**	8,539
		68,306	44,038
Earnings per share attributable to equity shareholders of the Company *(expressed in RMB cents)*			
Basic and diluted	*9*	**7.92**	6.44

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	**19,483**	20,254
Intangible assets		**102,991**	85,215
Investment properties		**28,637**	28,768
Goodwill		**343,739**	292,661
Deposit paid for acquisition of a subsidiary		**–**	50,735
Deferred tax assets		**14,286**	10,752
		509,136	488,385
Current assets			
Inventories		**921**	585
Trade and other receivables	11	**553,505**	284,204
Restricted bank deposits		**9,845**	9,845
Bank balances and cash		**234,599**	391,228
		798,870	685,862
Current liabilities			
Contract liabilities		**215,872**	182,714
Trade and other payables	12	**378,569**	332,674
Lease liabilities		**1,547**	1,897
Income tax liabilities		**16,150**	43,436
		612,138	560,721
Net current assets		**186,732**	125,141
Total assets less current liabilities		**695,868**	613,526

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Note	**As at 30 June 2022** *RMB'000* **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
Non-current liabilities			
Bank borrowings		**4,000**	4,000
Lease liabilities		**1,200**	647
Deferred tax liabilities		**23,473**	20,853
		28,673	25,500
Net assets		**667,195**	588,026
EQUITY			
Share capital	*13*	**38**	38
Reserves		**569,223**	523,748
Equity attributable to equity shareholders of the Company		**569,261**	523,786
Non-controlling interests		**97,934**	64,240
Total equity		**667,195**	588,026

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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**").

These interim condensed consolidated financial statements (the "**Interim Financial Statements**") are presented in Renminbi ("**RMB**"), unless otherwise stated. The Interim Financial statements for the six months ended 30 June 2022 were approved for issue by the board of directors on 31 August 2022 and have not been audited.

2. BASIS OF PREPARATION

These Interim Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "**IASB**"). These Interim Financial Statements do 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 2021.

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 Statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2021 except for the adoption of the new and amended IFRSs as set out below:

(a) New or amended IFRSs adopted as at 1 January 2022

In the current period, the Group has applied for the first time the following amended IFRSs, which are relevant to the Group's operations and effective for the Group's Interim Financial Statements for the annual period beginning on 1 January 2022.

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 16	Covid-19 Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020 Cycle

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

(b) Issued but not yet effective IFRSs

At the date of authorisation of these Interim Financial Statements, certain amended IFRSs that are potentially relevant to the Group have been published but are not yet effective, and have not been adopted early by the Group.

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

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

[2] Effective date not yet determined

The Group's current intention is to apply these amendments on the date they become effective. The adoption of these amended IFRSs is 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 Statements 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 Statements, 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 2021.

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-maker (the "**CODM**"), being the executive directors of the Company. 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	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from external customers and recognised over time		
Property management services	**350,656**	233,481
Community value-added services	**72,644**	35,639
Value-added services to non-property owners	**39,584**	38,318
	462,884	307,438
Leasing income (not within the scope of IFRS 15)		
Community value-added services	**391**	421
	463,275	307,859

Geographical information

The major operating entities of the Group are domiciled in the PRC. As at 30 June 2022 and 31 December 2021, substantially all of the non-current assets (other than deferred tax assets) of the Group and the location of the operation to which intangible assets and goodwill allocated were located in the PRC.

Information about major customers

For the six months ended 30 June 2022, revenue from companies controlled by the Controlling Shareholder contributed 5.8% (six months ended 30 June 2021: 15.8%) 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	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**777**	780
Net exchange gain	**–**	642
Investment income	**54**	–
Government subsidy income	**2,681**	2,166
Sundry income	**918**	783
	4,430	4,371

6. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

		Six months ended 30 June	
		2022	2021
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
(a)	**Finance costs**		
	Interest expenses on lease liabilities	**189**	60
	Finance costs on interest-bearing bank borrowings	**86**	–
		275	60
(b)	**Other items**		
	Amortisation of intangible assets	**6,121**	3,587
	Depreciation of property, plant and equipment		
	– Owned assets	**1,563**	1,106
	– Right-of-use assets	**1,505**	1,068
	Depreciation of investment properties	**531**	543
	Legal and professional fees	**2,538**	–
	Loss on disposal of property, plant and equipment	**2**	3
	Lease charges:		
	– Short-term leases and leases with lease term shorter than 12 months	**–**	340

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – PRC enterprise income tax		
Current period	**15,463**	11,180
Deferred tax		
Origination and reversal of temporary differences	**(2,183)**	(2,243)
Total income tax expense	**13,280**	8,937

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 2022 and 2021.

(C) HONG KONG PROFITS TAX

The provision for Hong Kong profits tax for the six months ended 30 June 2022 and 2021 are calculated at 16.5% of the estimated assessable profits for the periods. For the six months ended 30 June 2022 and 2021, a subsidiary of the Group is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities are taxed at 8.25%, and the profits above HK$2 million are taxed at 16.5%.

(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 six months ended 30 June 2022 and 2021, 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 2022 and 2021.

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 2022 and 2021. In addition, in accordance with the "Notice on Preferential Income Tax Policies Applicable to Small Low-profit Enterprises", the small and low-profit enterprises are entitled to a tax concession for 75% and 50% of its taxable income for the annual taxable income of less than RMB1,000,000 and the portion that exceeds RMB1,000,000 but does not exceed RMB3,000,000 (inclusive) for the six months ended 30 June 2022 and 2021, respectively.

(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 2022 and 2021.

9. EARNINGS PER SHARE

(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	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit attributable to equity shareholders of the Company *(RMB'000)*	**44,348**	35,094
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share *(thousands)*	**560,000**	544,530
Basic earnings per share *(expressed in RMB cents)*	**7.92**	6.44

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2022 and 2021 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 2022, the Group had an addition of property, plant and equipment with a cost of RMB254,000 (six months ended 30 June 2021: RMB1,502,000) and addition of RMB188,000 (six months ended 30 June 2021: RMB2,805,000) through the acquisition of subsidiaries (note 16). Items of property, plant and equipment with total carrying amount of approximately RMB540,000 were disposed of during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB180,000).

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

	As at 30 June 2022	As at 31 December 2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Office premises	**807**	1,612
Heating facility	**409**	1,034
Staff quarters	**227**	302
	1,443	2,948

During the six months ended 30 June 2022, the total additions to right-of-use assets included in property, plant and equipment amounted to RMBNil (six months ended 30 June 2021: RMB346,000).

11. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade receivables	*(a)*		
– Third parties		**364,539**	178,985
– Related parties		**59,309**	57,958
		423,848	236,943
Less: ECL allowance of trade receivables		**(52,881)**	(19,523)
		370,967	217,420
Other receivables			
Deposits, prepayment and other receivables		**80,001**	59,439
Other deposits		**82,489**	39,666
Payment on behalf of property owners		**21,238**	21,165
Advances to employees		**2,177**	545
		185,905	120,815
Less: ECL allowance on other receivables		**(3,367)**	(3,296)
		182,538	117,519
Less:			
Deposit paid for acquisition of a subsidiary included in non-current assets (net of allowance of RMBNil (31 December 2021: RMB1,515,000))		**–**	(50,735)
		182,538	66,784
		553,505	284,204

(a) Trade receivables

Trade receivables mainly arise from property management services and value-added services.

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 2022	As at 31 December 2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 – 90 days	**160,075**	62,865
91 – 180 days	**57,377**	36,143
181 – 365 days	**64,175**	54,111
1 to 2 years	**60,848**	49,629
Over 2 years	**28,492**	14,672
	370,967	217,420

The movement in the ECL allowance of trade receivables is as follows:

	As at 30 June 2022	As at 31 December 2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Balance at the beginning of the period/year	**19,523**	17,009
ECL allowance recognised	**33,358**	2,514
Balance at the end of the period/year	**52,881**	19,523

12. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade payables			
– Third parties	*(a)*	**74,176**	53,540
– Related parties		**42**	–
		74,218	53,540
Other payables			
Accrued charges and other payables		**77,163**	62,467
Financial guarantees issued *(note)*		**19,531**	19,000
Renovation deposits collected from property owners		**69,002**	46,188
Amounts collected on behalf of property owners		**77,118**	73,466
Other tax liabilities		**18,247**	15,992
Staff costs and welfare accruals		**43,290**	61,387
Amounts due to related parties		**–**	634
		304,351	279,134
		378,569	332,674

Note:

In prior years, Guizhou Huaxin Financing Guarantee Co., Ltd ("**Guizhou Huaxin**"), an independent third party, which was engaged in provision of financial services, had entered into certain financial guarantee contracts to provide financial guarantees to independent third parties borrowers ("**Independent Borrower**") in relation to the bank borrowings obtained by the Independent Borrowers from certain PRC banks. A subsidiary of the Company, Guiyang Xinglong Property Management Co., Ltd. ("**Guiyang Xinglong**"), had also entered into financial guarantee contracts with Guizhou Huaxin and the PRC banks to provide financial guarantees to Guizhou Huaxin. Pursuant to the terms of the above guarantees, upon default of bank borrowings by the Independent Borrowers, Guizhou Huaxin and Guiyang Xinglong are jointly and severally liable for the repayment of the outstanding principal together with accrued interest and penalties (the "**Default Payment**") owed by the Independent Borrowers to the PRC banks. The guarantees periods start from the date of grant of the bank borrowings to expiry of the financial guarantee contracts. Financial guarantee contracts of RMB19,531,000 (31 December 2021: RMB19,000,000) was recognised in the consolidated statement of financial positions at the date of acquisition of Guiyang Xinglong and at the end of the reporting period. The maximum exposure of the financial guarantee contracts is approximately RMB39,000,000 (31 December 2021: RMB38,000,000).

Restricted bank deposits include balances of RMB9,845,000 (31 December 2021: RMB9,845,000) which have been frozen by the PRC court's pending the outcome of the legal proceedings initiated by PRC banks relating to certain bank borrowing contracts which related to the financial guarantees issued by Guiyang Xinglong. The frozen bank balances may not be used by the Group until the litigations are resolved.

(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 2022 *RMB'000* **(Unaudited)**	As at 31 December 2021 *RMB'000* (Audited)
0 – 30 days	**64,962**	40,899
31 – 180 days	**3,638**	10,860
181 – 365 days	**4,881**	796
Over 1 year	**737**	985
	74,218	53,540

13. SHARE CAPITAL

	Number of shares	**Nominal value of shares** *United States dollars ("US$")*
Authorised:		
Ordinary shares of the Company:		
Ordinary shares at 31 December 2021 (audited), 1 January 2022 (audited) and 30 June 2022 (unaudited)	5,000,000,000	50,000

	Note	**Number of shares**	**Nominal value of shares** *US$*	**Equivalent nominal value of shares** *RMB'000*
Issued and fully paid:				
Ordinary shares of the Company:				
As at 1 January 2021 (audited)		480,000,000	4,800	34
Issue of shares upon placing of shares	*(i)*	80,000,000	800	4
At 31 December 2021 (audited), 1 January 2022 (audited) and 30 June 2022 (unaudited)		**560,000,000**	**5,600**	**38**

Note:

(i) On 14 January 2021, 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$2.00 per share. On 5 February 2021, the placing was completed and 80,000,000 new shares were placed by the placing agent to not less than six placees at an issue price of HK$2.00 per share resulting in raising proceeds, before expenses, of HK$160,000,000 (equivalents to RMB133,404,000), of which RMB4,000 was credited to the share capital account and RMB133,400,000 was credited to the share premium account. The related transaction costs amounted to RMB2,001,000 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 2022	As at 31 December 2021
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**686**	686
After one year but within two years	**686**	686
After two years but within three years	**686**	686
After three years but within four years	**686**	686
After four years	**–**	343
	2,744	3,087

As lessee

As at 30 June 2022 and 31 December 2021, the Group had no lease commitments for short-term leases.

(b) Capital commitments

As at 31 December 2021, the Group had capital commitments of RMB39,200,000 in respect of acquisition of 68.75% equity interest of Zunyi Jinning Property Management Co., Ltd. (遵義市金寧物業管理有限公司) ("**Zunyi Jinning**"). The acquisition was completed during the six months ended 30 June 2022.

16. ACQUISITION OF SUBSIDIARIES

During the six months ended 30 June 2022 and 2021, the Group acquired several subsidiaries from independent third parties. The Group considered these acquisitions are business combinations.

The English names of the PRC companies referred to below 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.

The subsidiaries were acquired to expand the Group's property management service portfolio and provide synergies to its existing property management business.

Goodwill arose in the acquisition of these subsidiaries as the costs of the business combinations included a control premium. In addition, the considerations paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of these subsidiaries. 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.

a) Acquisition of a subsidiary during the six months ended 30 June 2022

(i) Subsidiary acquired

	Principal activities	Date of acquisition	Proportion of shares acquired	Cash consideration *RMB'000*
Zunyi Jinning	Provision of property management services and related value-added services	10 April 2022	68.75%	91,450

(ii) Fair value of the identifiable assets and liabilities of the subsidiary acquired at the acquisition date

	Zunyi Jinning *RMB'000*
Property, plant and equipment	188
Intangible assets*	24,256
Deferred tax assets	2,369
Inventories	267
Trade and other receivables	65,858
Bank balances and cash	12,456
Trade and other payables	(35,966)
Income tax liabilities	(7,067)
Deferred tax liabilities	(3,638)
Total identifiable net assets acquired	58,723

* Intangible assets mainly represent identified property management contracts and customers relationships.

(iii) ***Non-controlling interests***

The non-controlling interests in Zunyi Jinning of 31.25% recognised at the acquisition date, was measured by reference to the proportionate share of the recognised amounts of net assets of Zunyi Jinning amounted to RMB18,351,000.

(iv) ***Goodwill arising on acquisition***

	Zunyi Jinning
	RMB'000
Cash consideration	91,450
Fair value of identifiable net assets acquired	(58,723)
Non-controlling interests	18,351
Goodwill arising on acquisition	51,078

(v) ***Net cash outflow on acquisition of a subsidiary***

	RMB'000
Total cash consideration	91,450
Cash deposit paid as at 31 December 2021	(52,250)
Bank balances and cash acquired	(12,456)
	26,744

(vi) ***Impact on the acquisition of a subsidiary on the results of the Group***

Included in the profit for the six months ended 30 June 2022 is profit of RMB4,063,000 attributable to the additional business generated by Zunyi Jinning. Revenue for the six months ended 30 June 2022 includes RMB29,999,000 in respect of Zunyi Jinning.

If the acquisition had occurred on 1 January 2022, the Group's revenue and profit for the six months ended 30 June 2022 would have been RMB494,161,000 and RMB70,547,000 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 2022, nor is it intended to be a projection of future results.

b) **Acquisition of subsidiaries during the six months ended 30 June 2021**

(i) Principal subsidiaries acquired

	Principal activities	Date of acquisition	Proportion of shares acquired	Cash consideration *RMB'000*
Zhongshan Zhongzheng Property Management Co., Ltd. (中山市中正物業管理有限公司) ("**Zhongshan Zhongzheng**")	Provision of property management services and related value-added services	4 January 2021	51%	15,400
Sichuan Wansheng Property Service Co., Ltd. (四川萬晟物業服務有限公司) ("**Sichuan Wansheng**")	Provision of property management services and related value-added services	25 January 2021	60%	42,900
Jiangsu Shenhua Times Property Group Co., Ltd. (江蘇深華時代物業集團有限公司) ("**Jiangsu Shenhua**")	Provision of property management services and related value-added services	16 March 2021	51%	40,800
Panjin Four Seasons City Property Management Co., Ltd. (盤錦四季城物業管理有限公司) ("**Panjin Four Seasons**")	Provision of property management services and related value-added services	25 May 2021	51%	18,360

(ii) Fair value of the identifiable assets and liabilities of the subsidiaries at the respective acquisition dates

	Zhongshan Zhongzheng *RMB'000*	Sichuan Wansheng *RMB'000*	Jiangsu Shenhua *RMB'000*	Panjin Four Seasons *RMB'000*	Others *RMB'000*	Total *RMB'000*
Property, plant and equipment	–	341	431	2,033	–	2,805
Intangible assets*	4,976	11,661	14,126	3,728	–	34,491
Trade and other receivables	654	60,411	48,568	2,968	2,532	115,133
Inventories	–	8	163	10	–	181
Bank balances and cash	12,153	5,410	2,054	5,936	273	25,826
Contract liabilities	(81)	(16,665)	(12,605)	(7,795)	(396)	(37,542)
Trade and other payables	(3,466)	(43,910)	(25,582)	(2,108)	(799)	(75,865)
Income tax liabilities	(170)	(411)	(1,188)	(17)	(92)	(1,878)
Deferred tax liabilities	(1,244)	(2,915)	(3,531)	(932)	–	(8,622)
Total identifiable net assets acquired	12,822	13,930	22,436	3,823	1,518	54,529

* Intangible assets mainly represent identified property management contracts and customers relationships.

(iii) Non-controlling interests

The non-controlling interests in Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua and Panjin Four Seasons of 49%, 40%, 49% and 49% recognised at the respective acquisition dates, respectively, were measured by reference to the respective proportionate share of the recognised amounts of net assets of Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua and Panjin Four Seasons amounted to RMB6,283,000, RMB5,572,000, RMB10,994,000 and RMB1,873,000, respectively.

(iv) Goodwill arising on these acquisitions

	Zhongshan Zhongzheng *RMB'000*	Sichuan Wansheng *RMB'000*	Jiangsu Shenhua *RMB'000*	Panjin Four Seasons *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cash considerations	15,400	42,900	40,800	18,360	2,100	119,560
Fair value of identifiable net assets acquired	(12,822)	(13,930)	(22,436)	(3,823)	(1,518)	(54,529)
Non-controlling interests	6,283	5,572	10,994	1,873	695	25,417
Goodwill arising on acquisition	8,861	34,542	29,358	16,410	1,277	90,448

(v) Net cash outflow on acquisition of subsidiaries

	RMB'000
Total cash considerations	119,560
Cash deposit paid as at 31 December 2020	(7,800)
Bank balances and cash acquired	(25,826)
	85,934

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

Included in the profit for the six months ended 30 June 2021 is profit of RMB2,968,000 attributable to the additional business generated by Zhongshan Zhongzheng, profit of RMB4,565,000 attributable to Sichuan Wansheng, profit of RMB1,665,000 attributable to Jiangsu Shenhua and profit of RMB139,000 attributable to Panjin Four Seasons. Revenue for the six months ended 30 June 2021 includes RMB19,297,000 in respect of Zhongshan Zhongzheng, RMB22,041,000 in respect of Sichuan Wansheng, RMB13,622,000 in respect of Jiangsu Shenhua and RMB1,474,000 in respect of Panjin Four Seasons.

If the acquisitions had occurred on 1 January 2021, the Group's revenue and profit for the six months ended 30 June 2021 would have been RMB326,220,000 and RMB46,284,000 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 2021, 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 Statements 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	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Companies controlled by Mr. Liu		
Provision of property management and value-added services	**26,685**	48,603
Lease payment	**–**	363

(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	
	2022	2021
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries, bonus and allowances	**1,875**	1,233
Retirement benefit scheme contributions	**204**	242
	2,079	1,475

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board, I am pleased to present the interim results of the Company for the six months ended 30 June 2022.

In the first half of 2022, the situation of COVID-19 prevention and control was still severe. The government enlisted property service enterprises into the organization and management system of epidemic prevention and control. Under the unified organization and command of the local governments, the Group proactively cooperated and implemented the government's epidemic prevention requirements. In particular, for the communities under the management of the Company which were locked down due to the outbreak of epidemic, our staff as a whole overcame multiple difficulties and worked together with anti-epidemic forces from all sides to prevent the spread of the epidemic, guaranteed the daily lives of property owners to the greatest extent, and maintained the stability of communities, and a large number of "anti-epidemic heroes" emerged during the process. The dedication of property staff during the epidemic was fully affirmed by the majority of property owners, which improved the property owners' satisfaction with property services, winning high recognition of our property companies from local governments, and fully reflecting the service concept of "Living a happy life with Hevol".

As the property industry was affected by the macroeconomic environment, real estate market condition and other factors, the property capital market continued the adjustment trend since the second half of last year. However, the industry characteristics of asset-light operation, multi-channel expansion, and anti-cyclical risk had not changed, and the trend of differentiation of competition in all types of business, the confluence of multiple types of property management and business management, and the decoupling of property management with real estate development remained unchanged. The Group adhered to the "three principles" of professionalism, pragmatism and persistence, so as to reflect professional services in quality, create a better living environment, and enhanced the happiness of property owners persistently.

For the six months ended 30 June 2022, the Group achieved revenue of approximately RMB463.3 million, representing an increase of approximately 50.5% over the same period in 2021; in particular, the revenue from property management services amounted to approximately RMB350.7 million, representing a year-on-year increase of approximately 50.2%; the revenue from community value-added services amounted to approximately RMB73.0 million, representing a year-on-year increase of approximately 102.5%; the revenue from value-added services to non-property owners amounted to approximately RMB39.6 million, representing a year-on-year increase of approximately 3.3%; gross profit was approximately RMB150.8 million, an increase of approximately 36.5% over the same period in 2021.

For the six months ended 30 June 2022, the Group's profit after tax amounted to approximately RMB67.2 million, an increase of approximately 54.0% over the same period in 2021. Earnings per share attributable to shareholders amounted to approximately RMB7.92 cents, compared to approximately RMB6.44 cents over the same period in 2021. The Group's profitability continued to improve.

In the first half of 2022, the Group continued to adhere to the "whole-hearted, refined, precise, strict, and transparent" operation and management model. It provided "whole-hearted" services to property owners following the service concept of "good products, good services, and good life". While continuously exploring new models of refined services, the Group has introduced high-end butler-style services, convenient services, and private customized services to meet the differentiated needs of customers with the five-enjoyment service system of "harmony, happiness, respect, grandness, and wisdom". To "refine" the organization, the Group continued to improve and optimize the organizational structure and position setting, strengthen internal business support, and provide high-quality services externally, and it promoted and improved the practical skills of employees and service quality with the "high-end, precise and professional" power. In respect of "precise" services, the Group regarded 400 major customer service centers as the information hub, to ensure the unified external image of property services, achieve effective transmission of grassroots management appeals, and improve service quality; the customer interface of the customer end APP was established and improved, to meet the daily needs of customers through multi-scenario applications. To achieve "strict" management, the property management system was constantly revised and iterated and the inspection system was strictly controlled so as to ensure the quality of customer services; a centralized procurement platform was established to fully implement regional suppliers and improve support capability through regional linkage. Data should be "transparent" and transparent management was achieved through the application of intelligent management tools. The analysis system, decision-making system, charging system, and management system of the Group were fully integrated and all kinds of data were fully online, centralized, platform-based and visualized; the realization of real operation data and real-time capture and real-time analysis could avoid enterprise operation risks and provide a strong guarantee for operation decisions. With this operation and management model, the Group has continuously improved its service quality and achieved rapid growth in scale.

For the six months ended 30 June 2022, the Group managed 249 property management projects across 37 cities in 16 provinces and municipalities in China with a total contracted GFA of approximately 54.0 million sq.m., representing an increase of approximately 53.4% as compared to approximately 35.2 million sq.m. in the same period in 2021. The total GFA under management reached approximately 43.1 million sq.m., representing an increase of approximately 59.0% as compared to approximately 27.1 million sq.m. in the same period in 2021.

In the first half of 2022, the Group adhered to the corporate values of "openness, innovation, co-creation, and co-success", and cooperated with excellent partners with high quality and business synergy to complement each other's advantages and synergize for improvement. In addition, in line with the strategy of expanding regional concentration, sequentially connecting projects under management, and improving the quality of new projects, the Group proactively explored cooperation models and comprehensively carried out third-party market expansion. The Group continuously improved the market expansion system and further clarified the work standards of expansion projects, and therefore business expansion was carried out smoothly. Through efficient integration, it drew on excellent management and operation experience and mature technologies and promoted throughout the Group. Through synergies, the corporate's overall efficiency and value was improved, the management scale was continuously expanded, and the Group seized the development opportunities of the property management service industry.

In the first half of 2022, adhering to the talent strategy of "Six Feelings" culture, the Group cultivated "Hevol fellow travelers" who identified with the culture and core values of Hevol and were willing to grow together with Hevol, and they regarded the development of Hevol as a platform for their own career. The Group brought on board all kinds of outstanding talents, and at the same time launched the "Management Trainee Recruitment and Cultivation Program" to boldly select young fresh graduates with high academic qualifications and ideas, supply new talents for the middle management positions of the Company, and provide a source of impetus for the development of the Company, thereby realizing the sound development of Hevol.

The year of 2022 is the 20th anniversary of the establishment of the Group and the 3rd anniversary of the Group's listing in Hong Kong. In the past 20 years, the original intention of "serving people with a shared passion" remained unchanged, and the Group has achieved leapfrog development in the three years since its listing. Looking forward to the future from a new historical starting point, the Group will cultivate new opportunities in crises and open up new chapters amidst evolving situations. Under the leadership of the Board, all employees will work together for the Group's development and elevate the Group's business to a new height!

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, business partners, customers and suppliers for their strong support and trust.

Liu Jiang
Chairman of the Board of Directors

Hong Kong, 31 August 2022

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group is a renowned market player in the property management industry in China and has been providing property management services, community value-added services and value-added services to non-property owners in the PRC for more than 20 years. According to the China Index Academy, the Group ranked 32nd among the "2022 Top 100 Property Management Enterprises", and the Group was considered as a fast-growing China Top 100 Property Management Company from 2015 to 2022 in terms of overall strength of property management based on certain key factors such as property management scale, business performance, service quality, development potential and social responsibility. Meanwhile, it won the "2022 Leading Enterprise Development Speed and Development Potential TOP5 of Listed Property Companies" and "2022 Top 100 Property Service Enterprises" selected by E-House China R&D Institute and CRIC Property Management, and "China Top 100 Property Service Brands in 2022", "2022 Growth Leading Enterprise of China Property Service Enterprises", and "TOP23 in 2022 China Top 100 Property Enterprises in respect of Service Satisfaction" rated by Leju Finance and Economics, resulting in continuous enhancement of the Group's influence in the industry.

As of 30 June 2022, the Group recorded revenue of approximately RMB463.3 million, representing an increase of approximately 50.5% compared to the same period in 2021; gross profit of approximately RMB150.8 million, representing an increase of approximately 36.5% compared to the same period in 2021; and gross profit margin of approximately 32.6%, representing a year-on-year decrease of approximately 3.3 percentage points. The Group recorded net profit after tax for the six months ended 30 June 2022 of approximately RMB67.2 million, representing an increase of approximately 54.0% compared to approximately RMB43.6 million for the corresponding period in 2021.

For the six months ended 30 June 2022, the Group managed 249 property management projects across 37 cities in China with a total contracted gross floor area ("**GFA**") of approximately 54.0 million sq.m., representing an increase of approximately 53.4% as compared to approximately 35.2 million sq.m. in the same period in 2021. The total GFA under management reached approximately 43.1 million sq.m., representing an increase of approximately 59.0% as compared to approximately 27.1 million sq.m. in the same period in 2021.

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 focuses on serving residential communities and also involves other types of properties, such as commercial properties, public buildings and schools.

As of 30 June 2022, the revenue from property management services amounted to approximately RMB350.7 million, representing an increase of approximately RMB117.2 million or approximately 50.2% as compared to approximately RMB233.5 million in the same period in 2021. For the six months ended 30 June 2022, revenue generated from property management services, representing approximately 75.7% of the Group's total revenue for the period.

As of 30 June 2022, the Group managed 249 property management projects across 37 cities in China with a total GFA under management of approximately 43.1 million sq.m., covering five regions in China including Northern China, Southwestern China, Northeastern China, Southern China and Eastern China.

During the Results Period, according to its strategic plan, the Group concentrated superior resources to continuously expand the management scale. In April 2022, Zunyi Jinning Property Management Co., Ltd.* (遵義市金寧物業管理有限公司) ("**Zunyi Jinning**"), a professional property management enterprise with the largest scale in the property market of Zunyi, officially joined the Group, which enabled the Group to gradually gain market share in Southwest China, further strengthen the Group's strategic layout and brand influence in Guizhou, and create a new benchmark for regional services in Guizhou, thus establishing the position of local top one brand in the industry. As of 30 June 2022, the Group's GFA under management in Southwest China accounted for 52.6% of the Group's overall GFA under management.

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

	Six months ended 30 June							
	2022				2021			
	Revenue generated from property management services		**GFA under management**		Revenue generated from property management services		GFA under management	
	(RMB'000)	***(%)***	***('000 sq.m.)***	***(%)***	*(RMB'000)*	*(%)*	*('000 sq.m.)*	*(%)*
Northern China (1)	**51,326**	**14.6**	**5,446**	**12.6**	79,571	34.1	5,642	20.8
Northeastern China (2)	**21,218**	**6.0**	**2,661**	**6.2**	7,228	3.1	2,839	10.5
Southwestern China (3)	**159,400**	**45.5**	**22,666**	**52.6**	55,085	23.6	6,433	23.7
Southern China (4)	**44,374**	**12.7**	**4,069**	**9.4**	41,845	17.9	4,050	14.9
Eastern China (5)	**74,338**	**21.2**	**8,253**	**19.2**	49,752	21.3	8,144	30.1
Total	**350,656**	**100.0**	**43,095**	**100.0**	233,481	100.0	27,108	100.0

Notes:

(1) "Northern China" includes Beijing, Tianjin, Tangshan, Qinhuangdao and Hohhot.

(2) "Northeastern China" includes Harbin, Shenyang, Panjin and Dandong.

(3) "Southwestern China" includes Chongqing, Chengdu, Neijiang, Guiyang, Zunyi, Anshun, Qiannanzhou, Panzhou and Tongren.

(4) "Southern China" includes Changsha, Yiyang, Yueyang, Huaihua, Dongguan, Zhongshan, Foshan, Jiangmen, Huizhou, Sanya and Lingshui.

(5) "Eastern China" includes Shanghai, Hangzhou, Kunshan, Jingjiang, Xuzhou, Xinyi, Huaian and Huangshan.

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 Reporting Period, the Group generated the majority of its property management services revenue from residential properties, which will continue to account for a significant portion of the Group's 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 GFA under management by type of properties for the periods indicated:

	Six months ended 30 June							
	2022				2021			
	Revenue generated from property management services		**GFA under management**		Revenue generated from property management services		GFA under management	
	RMB'000	***%***	***'000 sq.m.***	***%***	*RMB'000*	*%*	*'000 sq.m.*	*%*
Residential properties	**322,172**	**91.9**	**39,475**	**91.6**	214,121	91.7	25,318	93.4
Non-residential properties	**28,484**	**8.1**	**3,620**	**8.4**	19,360	8.3	1,790	6.6
Total	**350,656**	**100.0**	**43,095**	**100.0**	233,481	100.0	27,108	100.0

The table below sets out the breakdowns of the Group's GFA under the Group's management and revenue generated from property management services by property developer for the periods indicated:

	Six months ended 30 June							
	2022				2021			
	Revenue generated from property management services		**GFA under management**		Revenue generated from property management services		GFA under management	
	(RMB'000)	***(%)***	***('000 sq.m.)***	***(%)***	*(RMB'000)*	*(%)*	*('000 sq.m.)*	*(%)*
Hevol Real Estate Group Limited ("**Hevol Real Estate Group**")	**112,430**	**32.1**	**8,049**	**18.7**	110,993	47.5	7,405	27.3
Other property developers	**238,226**	**67.9**	**35,046**	**81.3**	122,488	52.5	19,703	72.7
Total	**350,656**	**100.0**	**43,095**	**100.0**	233,481	100.0	27,108	100.0

Community value-added services

As an extension of the Group's property management services business, the Group provides community value-added services to property owners and residents according to their needs. The Group's community value-added services help to address the lifestyle and daily needs of the property owners and residents, enhance their customer experience, satisfaction and loyalty, as well as to create a healthier and more convenient living community. The community value-added services, mainly includes home-living services, real estate agent, housing decoration and renovation services, community group purchase, online community business platform, leasing of car parking space, and leasing of common facilities.

In the first half of the year, in the face of the outbreak of COVID-19, particularly in the Yangtze River Delta region which was severely affected by the epidemic, the Group focused on launching an online community business service platform, successfully providing strong assurance for the living needs of property owners during the epidemic and also provided the best model creation verification for the application of the Group's online community business service platform.

During the six months ended 30 June 2022, the Group's revenue from community value-added services reached approximately RMB73.0 million, representing an increase of approximately RMB37.0 million, or approximately 102.5% as compared to approximately RMB36.0 million in the same period in 2021. For the six months ended 30 June 2022, revenue generated from community value-added services, representing approximately 15.8% of the Group's total revenue for the period.

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. Revolving around the needs of property developers, it mainly provides site services and diverse auxiliary property management services for property developers, and provides full-cycle and full-process services before property sales and delivery. Based on the professional service standards of the Group in the property management industry, it assists property developers to enhance brand value in an all-round way.

During the six months ended 30 June 2022, the Group's revenue from value-added services to non-property owners reached approximately RMB39.6 million, representing an increase of approximately RMB1.3 million, or approximately 3.3% as compared to approximately RMB38.3 million in the same period in 2021. For the six months ended 30 June 2022, revenue generated from value-added services to non-property owners, representing approximately 8.5% of the Group's total revenue for the period.

FUTURE OUTLOOK

Realization of low-carbon operation and construction of low-carbon communities

In October 2021, the State Council issued the Action Plan on Peak Carbon Dioxide Emissions by 2030, marking that peak carbon dioxide emissions and carbon neutrality have become important guidelines for China's future economic development and an important goal to be implemented in the 14th Five-Year Plan. The Group will earnestly study and launch a low-carbon community construction plan to conduct ecological technological transformation for the sites and develop environmental monitoring systems and equipment operation monitoring system to improve operational efficiency. It will vigorously promote the use of green energy to reduce the operational energy consumption of buildings and sites, comprehensively realize green property management services, and jointly promote the low-carbon transformation and upgrading of property management communities.

Building smart properties to reduce costs and increase efficiency

The comprehensive empowerment of science and technology will promote the formation of a new situation in the development of the industry. Focusing on the improvement of service quality, the Group will conduct in-depth research and development of digital platforms for smart communities and better integrate mature technological products into various scenarios of property services, to win with "intelligence" and achieve comprehensive digital operation of property management. Technology will be used as a tool to continuously promote cost reduction and efficiency enhancement. Through technology empowerment and technology drive and on the basis of the existing smart property management system, the Group will further promote resource integration and system upgrades and make property management smarter, and strive to become an industry-recognized benchmark for smart service management.

Improvement of talent cultivation to enhance core competitiveness

The Group will create the "hundred (senior management), thousand (middle management) and ten thousand (grassroots)" talent project. Through the three-horizontal and N-vertical training model, it will formulate training courses for personnel at all levels, set up a team of internal trainers, carry out "The Hevol Wisdom and the Hevol Way Training Classes" (和智泓道培訓班), and introduce online training platforms, etc. to empower the "hundred, thousand and ten thousand" talent project. An "internal talent pool" will be built for targeted talent mining of talents including city general managers, project managers and business professional managers with strong business capacity and high comprehensive quality that are urgently needed for the rapid development of the Group's businesses, thereby realize the timely supply of talents for key business positions. An "excellent project manager culture" will be created to give full play to the importance of project managers, and realize the transformation of project managers from event-centered production management to performance-centered operation planning. The Group will continue to deepen the implementation of the "Management Trainee Training Program" to realize the magnificent transformation of management trainees from students to backbones of the Group, and regularly hold intensified training, symposiums and team building for management trainees, thus providing a solid talent guarantee for its healthy and vigorous development.

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 RMB155.4 million, or approximately 50.5% from approximately RMB307.9 million for the six months ended 30 June 2021 to approximately RMB463.3 million for the six months ended 30 June 2022. Such growth was primarily attributable to: (i) an increase in revenue resulted from financial effects of the acquisition of one subsidiary in the second half of 2021 and one subsidiary for the six months ended 30 June 2022, which contributed revenue in aggregate of approximately RMB110.0 million for the six months ended 30 June 2022; (ii) an increase in revenue from community value-added services due to the growth in the number of property management projects from 175 to 249; and (iii) an increase in ancillary property management services provided to Hevol Real Estate Group and other property developers.

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					
	2022		2021		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Property management services	**350,656**	**75.7**	233,481	75.8	117,175	50.2
Community value-added services	**73,035**	**15.8**	36,060	11.7	36,975	102.5
Value-added services to non-property owners	**39,584**	**8.5**	38,318	12.5	1,266	3.3
Total	**463,275**	**100.0**	307,859	100.0	155,416	50.5

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 RMB117.2 million, or approximately 50.2% from approximately RMB233.5 million for the six months ended 30 June 2021 to approximately RMB350.7 million for the six months ended 30 June 2022. Such increase was primarily attributable to the increase in the total GFA under management resulting from the business expansion through organic growth and acquisitions of one subsidiary in the second half of 2021 and one subsidiary during the six months ended 30 June 2022, which contributed approximately RMB84.2 million of revenue in aggregate from property management services for six months ended 30 June 2022. The Group's GFA under management increased by approximately 59.0% from approximately 27.1 million sq.m. as at 30 June 2021 to approximately 43.1 million sq.m. as at 30 June 2022 and the number of property management projects increased from 175 to 249, respectively.

Community value-added services

Revenue from community value-added services increased by approximately RMB37.0 million or approximately 102.5% from approximately RMB36.0 million for the six months ended 30 June 2021 to approximately RMB73.0 million for the six months ended 30 June 2022. Such revenue 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 RMB17.7 million, RMB36.8 million and RMB18.5 million, respectively for the six months ended 30 June 2022. Revenue from home-living services, leasing of car parking space and leasing of common facilities amounted to approximately RMB14.8 million, RMB8.6 million and RMB12.6 million, respectively, for the six months ended 30 June 2021. Such increase was due to an increase in the number of property management projects through bidding and acquisition. In addition, the Group actively developed and expanded value-added services to existing residential communities which also contributed to the increase.

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 RMB1.3 million, or approximately 3.3% from approximately RMB38.3 million for the six months ended 30 June 2021 to approximately RMB39.6 million for the six months ended 30 June 2022. The increase in revenue was due to an increase of ancillary property management services provided to Hevol Real Estate Group and other property developers.

Cost of Sales

Cost of sales of the Group primarily comprises staff costs, sub-contracting costs, utility expenses, repairs and maintenance costs, cost of providing ancillary property management services, material costs and sales taxes. Cost of sales increased by approximately RMB115.1 million or approximately 58.3% from approximately RMB197.3 million for the six months ended 30 June 2021 to approximately RMB312.4 million for the six months ended 30 June 2022. Such increase was mainly attributable to: (i) increase of the Group's sub-contracting costs by approximately RMB31.6 million for the six months ended 30 June 2022 compared to the same period in 2021, due to an increase in its GFA under management resulting from the expansion of property management services, and (ii) increase of the Group's staff costs by approximately RMB80.7 million, or approximately 155.2% from approximately RMB52.0 million for the six months ended 30 June 2021 to approximately RMB132.7 million for the six months ended 30 June 2022, due to the increasing number of service employee headcount as a result of business expansion and acquisition of one subsidiary, in the second half of 2021 and one subsidiary, during the six months ended 30 June 2022. 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					
	2022		2021			
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
Property management services	**98,146**	**28.0**	79,241	33.9	18,905	23.9
Community value-added services	**40,058**	**54.8**	19,534	54.2	20,524	105.1
Value-added services to non-property owners	**12,629**	**31.9**	11,756	30.7	873	7.4
Total	**150,833**	**32.6**	110,531	35.9	40,302	36.5

Overall gross profit of the Group increased by approximately RMB40.3 million, or approximately 36.5% from approximately RMB110.5 million for the six months ended 30 June 2021 to approximately RMB150.8 million for the six months ended 30 June 2022. The overall gross profit margin decreased from approximately 35.9% for the six months ended 30 June 2021 to approximately 32.6% for the six months ended 30 June 2022. Such decrease was primarily attributable to: (i) an increase in staff costs resulted from an increasing salary rate; and (ii) newly acquired subsidiaries with lower gross profit margin in the segment of property management services.

Property management services

Gross profit for the Group's property management services increased by approximately RMB18.9 million, or approximately 23.9% from approximately RMB79.2 million for the six months ended 30 June 2021 to approximately RMB98.1 million for the six months ended 30 June 2022. The increase of gross profit is primarily attributable to: (i) an increase in GFA under management as a result of an increasing number of property management projects; 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 decreased to approximately 28.0% in for the six months ended 30 June 2022 from approximately 33.9% for the six months ended 30 June 2021. Such decrease was primarily due to an increase in staff cost as a result of an increasing salary rate and impact of lower gross profit margin on newly acquired subsidiaries.

Community value-added services

Gross profit for the Group's community value-added services increased by approximately RMB20.6 million, or approximately 105.1% from approximately RMB19.5 million for the six months ended 30 June 2021 to approximately RMB40.1 million for the six months ended 30 June 2022, due to the (i) inclusion of gross profit of community value-added services of the Group's newly acquired one subsidiary in the second half of 2021 and one subsidiary during the six months ended 30 June 2022, and (ii) an increase of number of property management projects from 175 as at 30 June 2021 to 249 as at 30 June 2022. Gross profit margin slightly increased to approximately 54.8% for the six months ended 30 June 2022 compared to 54.2% in the same period in 2021.

Value-added services to non-property owners

Gross profit for the Group's value-added services to non-property owners increased by approximately RMB0.8 million, or approximately 7.4% from approximately RMB11.8 million for the six months ended 30 June 2021 to approximately RMB12.6 million for the six months ended 30 June 2022. Such changes were attributable to an increase of ancillary property management services provided to Hevol Real Estate Group and other property developers. Gross profit margin slightly increased from approximately 30.7% for the six months ended 30 June 2021 to approximately 31.9% for the six months ended 30 June 2022, which was mainly attributable to the operational economic benefits and effective cost control policy imposed by the Group.

Other Income

Other income remained stable at approximately RMB4.4 million for the six months ended 30 June 2022, and it mainly represented unconditional government subsidy income of approximately RMB2.7 million and bank interest income of approximately RMB0.8 million.

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 of the Group increased by approximately RMB11.7 million, or approximately 21.4% from approximately RMB54.7 million for the six months ended 30 June 2021 to approximately RMB66.4 million for the six months ended 30 June 2022, primarily due to: (i) an increase in staff costs resulting from the expansion in the business scale of the Group; (ii) an increase in professional fees in relation to acquisition of subsidiaries, (iii) the inclusion of administrative expenses of newly acquires subsidiaries during the six months ended 30 June 2022, and (iv) an increase of amortisation of intangible assets and depreciation of property, plant and equipment resulted from the acquisition of subsidiaries.

Income Tax Expense

Income tax expenses of the Group increased by approximately RMB4.4 million, or approximately 48.6% from approximately RMB8.9 million for the six months ended 30 June 2021 to approximately RMB13.3 million for the six months ended 30 June 2022, primarily due to the increase of taxable income and an increase 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 shareholders of the Company increased by approximately RMB9.2 million, or approximately 26.4% from approximately RMB35.1 million for the six months ended 30 June 2021 to approximately RMB44.3 million for the six months ended 30 June 2022, mainly attributable to: (i) the expansion of business scale and an increasing number of property management projects; and (ii) the inclusion of profits of newly acquired subsidiaries.

Intangible Assets

Intangible assets of the Group mainly consisted of identified property management contracts and customers relationships, which increased from approximately RMB85.2 million as at 31 December 2021 to approximately RMB103.0 million as at 30 June 2022 arising from the acquisition of Zunyi Jinning Property Management Co. Ltd. ("**Zunyi Jinning**") (遵義市金寧物業管理有限公司), offset by amortisation for the six months ended 30 June 2022.

Investment Properties

Investment properties of the Group consisted of certain car parking spaces and shop premises, which decreased from approximately RMB28.8 million as at 31 December 2021 to approximately RMB28.6 million as at 30 June 2022, mainly due to depreciation.

Goodwill

Goodwill increased from approximately RMB292.7 million as at 31 December 2021 to approximately RMB343.7 million as at 30 June 2022, due to the acquisition of Zunyi Jinning.

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 RMB217.4 million as at 31 December 2021 to approximately RMB371.0 million as at 30 June 2022, primarily due to the inclusion of trade receivables of newly acquired subsidiaries and organic growth of trade receivables after expansion of scale. Other receivables increased from approximately RMB117.5 million as at 31 December 2021 to approximately RMB182.5 million as at 30 June 2022, mainly due to an increase in deposits, prepayment and other receivables of approximately RMB20.6 million and an increase in other deposits of approximately RMB42.8 million, resulted from an increase in deposits and prepayment to sub-contractors, including security, clearing, greening, gardening services as well as repair and maintenance services, as a result of expansion of operation scale.

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 RMB182.7 million as at 31 December 2021 to approximately RMB215.9 million as at 30 June 2022, representing an increase of approximately RMB33.2 million, primarily due to: (i) the managing of an increasing number of property management projects, and (ii) the inclusion of contract liabilities of newly acquired subsidiaries.

Trade and Other Payables

Trade payables of the Group increased from approximately RMB53.5 million as at 31 December 2021 to approximately RMB74.2 million as at 30 June 2022, 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 newly acquired subsidiaries. Other payables mainly consist of accrued charges and other payables, accrued staff costs, deposits received and amounts collected on behalf of property owners. The increase of other payables of the Group from approximately RMB279.1 million as at 31 December 2021 to approximately RMB304.4 million as at 30 June 2022 was primarily due to: (i) an increase of accrued charges and other payables of approximately RMB14.7 million resulting from an increasing number of property management projects and inclusion of balances of newly acquired subsidiaries, (ii) an increase of renovation deposits collected from property owners of approximately RMB22.8 million, due to the expansion of renovation services to property owners in the Group's communities, offset by a decrease of staff costs and welfare accruals which amounted to approximately RMB18.1 million.

Liquidity, Financial and Capital Resources

As at 30 June 2022, the Group's bank balances and cash decreased by approximately RMB156.6 million from approximately RMB391.2 million as at 31 December 2021 to approximately RMB234.6 million as at 30 June 2022. As at 30 June 2022, the Group's net current assets increased from approximately RMB125.1 million as at 31 December 2021 to approximately RMB186.7 million as at 30 June 2022. As at 30 June 2022, the Group's current ratio was 1.31 times compared to 1.22 times as at 31 December 2021.

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 of directors of the Company 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 China. 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 six months ended 30 June 2022, the directors of the Company ("**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 4,936 employees as at 30 June 2022 compared to 4,957 employees as at 31 December 2021. For the six months ended 30 June 2022, the Group's total staff costs were approximately RMB132.7 million. The remuneration package of the Group's 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 its 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 the Group's corporate culture to understand its service standards and procedures. The Group also provided training courses and regular seminars on various aspects of its business operations, such as quality control and customer relationship management, to its 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 2022.

CHARGE ON ASSETS

As at 30 June 2022, the Group did not have any charges on its assets (31 December 2021: Nil).

GEARING RATIO

The Group's gearing ratio is calculated on the basis of borrowings over total equity. As at 30 June 2022 and 31 December 2021, the gearing ratio of the Group maintained at net cash position.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities (31 December 2021: Nil).

SIGNIFICANT INVESTMENTS HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

During the Reporting Period, the Group did not hold any single significant investment which accounted for over 5% of the Group's total assets, and the Group has no plan for other material investments or additions of capital assets as at the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 25 December 2021, Guizhou Furuiying Information Consultancy Limited (貴州福瑞盈資訊諮詢有限公司) ("**Guizhou Furuiying**"), an indirect wholly-owned subsidiary of the Company and Shanghai Laida Business Consulting Center (Limited Partnership)* (上海徠達商務諮詢中心 (有限合夥)) (the "**Vendor**") entered into a sale and purchase agreement (the "**Acquisition**"), pursuant to which, Guizhou Furuiying has conditionally agreed to acquire and the Vendor has conditionally agreed to sell 68.75% of the equity interests in Zunyi Jinning for a total consideration of RMB91,450,000. Completion of the transaction took place on 10 April 2022. For details of the Acquisition, please refer to the announcement of the Company dated 27 December 2021.

Save as disclosed herein, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2022.

SUBSEQUENT EVENTS

There has been no significant subsequent event from 30 June 2022 to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance by focusing on principles of integrity, accountability, transparency independence, responsibility and fairness to safeguard the interests of the shareholders of the Company 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 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 2022. 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 2022.

USE OF NET PROCEEDS FROM LISTING

With the shares of the Company (the "**Shares**") 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 2022, approximately RMB62.7 million, or approximately 94.1%, 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 Prospectus.

Set out below is the actual utilisation of the net proceeds from the listing as at 30 June 2022:

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	34.5	–	–
2	Bidding for new property management projects	7.7%	5.1	4.9	0.2	On or before 31 December 2022
3	Investment in advanced technologies and smart communities	23.1%	15.4	11.7	3.7	On or before 31 December 2022
4	Expansion of value added services business segment	14.4%	9.6	9.6	–	–
5	Working capital and general corporate purpose	3.0%	2.0	2.0	–	–
		100.0%	66.6	62.7	3.9	

Proceeds from the placing of shares

On 5 February 2021, the Company issued 80,000,000 ordinary shares (the "**Share Placing**") at an issue price of HK$2.00 per share. As a result, the Company received net proceeds of approximately HK$157.6 million (equivalent to RMB131.4 million) after deduction of the placing commission and other related expenses. For further details of the Share Placing, please refer to the announcements of the Company dated 14 January 2021 and 5 February 2021. Such proceeds were intended to be fully applied towards the acquisition of other property management companies. As at 30 June 2022, all net proceeds from the Share Placing have been utilised.

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 2022 and has discussed, among other things, the matters of risk management and internal control with the management.

PUBLICATION OF INTERIM RESULTS AND 2022 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 2022 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, 31 August 2022

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.