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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Total revenue of the Group for the year ended 31 December 2019 increased by 10.6% to approximately RMB248.3 million from approximately RMB224.5 million for the year ended 31 December 2018.

- Gross profit of the Group for the year ended 31 December 2019 increased by 4.5% to approximately RMB84.1 million from approximately RMB80.5 million for the year ended 31 December 2018. Gross profit margin decreased to 33.9% for the year ended 31 December 2019 from 35.9% compared to 2018.

- Profit after income tax for the year ended 31 December 2019 amounted to approximately RMB13.8 million compared to approximately RMB16.9 million for the year ended 31 December 2018. The **adjusted profit after income tax** (excluding listing expenses) for the year ended 31 December 2019 increased by 10.1% to approximately RMB31.5 million from approximately RMB28.6 million for the year ended 31 December 2018.

- Earnings per share attributable to equity holders of the Company amounted to RMB3.97 cents for the year ended 31 December 2019 (2018: RMB5.63 cents).

The board (the "**Board**") of directors (the "**Directors**") of Hevol Services Group Co. Limited (the "**Company**") is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000* *(Note)*
Revenue	*3*	**248,275**	224,450
Cost of sales		**(164,142)**	(143,958)
Gross profit		**84,133**	80,492
Other income	*4*	**9,277**	1,573
Administrative expenses		**(52,353)**	(39,966)
Listing-related expenses		**(17,693)**	(11,694)
Finance costs	*5(a)*	**(150)**	–
Profit before income tax	*5*	**23,214**	30,405
Income tax expense	*6*	**(9,421)**	(13,519)
Profit and total comprehensive income for the year attributable to equity holders of the Company		**13,793**	16,886
Earnings per share attributable to equity holders of the Company *(expressed in RMB cents per share)*			
Basic and diluted	*8*	**3.97**	5.63

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.1.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment		**6,806**	2,979
Intangible assets		**2,657**	924
Investment properties		**30,902**	31,988
Deferred tax assets		**2,726**	4,766
Deposit paid for acquisition of subsidiaries	*9*	**24,875**	–
		67,966	40,657
Current assets			
Inventories		**106**	68
Trade and other receivables	*9*	**38,755**	85,072
Bank balances and cash		**199,829**	134,417
		238,690	219,557
Current liabilities			
Contract liabilities	*3(a)*	**58,297**	73,116
Trade and other payables	*10*	**73,935**	87,950
Lease liabilities		**1,918**	–
Income tax liabilities		**1,262**	14,442
		135,412	175,508
Net current assets		**103,278**	44,049
Total assets less current liabilities		**171,244**	84,706
Non-current liabilities			
Lease liabilities		**2,188**	–
Deferred tax liabilities		**4,600**	4,600
		6,788	4,600
Net assets		**164,456**	80,106
EQUITY			
Share capital	*11*	**28**	–*
Reserves		**164,428**	80,106
Total equity		**164,456**	80,106

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.1.

* The balance represents amount less than RMB1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Hevol Services Group Co. Limited (the "**Company**") was incorporated in the Cayman Islands on 28 May 2018 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 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**") (the "**Listing Business**").

On 12 July 2019, the Company has its shares listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") ("**the Listing**").

In the opinion of the directors, as at 31 December 2019, 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**").

The consolidated financial statements are presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors on 25 March 2020.

2. BASIS OF PRESENTATION AND PREPARATION

These consolidated financial statements of the Company have been prepared in accordance with applicable International Financial Reporting Standards ("**IFRSs**") which includes all applicable individual IFRSs, International Accounting Standards ("**IAS**"), amendments and interpretations issued by the International Accounting Standards Board ("**IASB**"). The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Pursuant to the reorganisation (the "**Reorganisation**") as more fully explained in the section headed "History, reorganisation and corporate structure" in the prospectus of the Company dated 27 June 2019 (the "**Prospectus**") which was completed on 26 December 2018, immediately prior to and after the Reorganisation, the Listing Business is held by Beijing Hongsheng Investment Limited (北京泓升投資有限責任公司, "**Beijing Hongsheng**") and is mainly conducted through Beijing Hongsheng and its wholly-owned subsidiaries (collectively, "**the Beijing Hongsheng Group**"). Pursuant to the Reorganisation, Beijing Hongsheng and the Listing Business are transferred to and held by the Company on 30 October 2018. The Company has not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owner of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under Beijing Hongsheng Group and the consolidated financial statements have been prepared and presented as a continuation of the consolidated financial statements of Beijing Hongsheng Group with the assets and liabilities of the Group recognised and measured at their carrying amounts of the Listing Business under the consolidated financial statements of Beijing Hongsheng Group for the year ended 31 December 2018. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

The consolidated financial statements have been prepared on the historical cost basis.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on the management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

2.1 New and amended IFRSs adopted by the Group

In the current year, the Group has applied for the first time the following new and amended IFRSs, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2019:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle
IFRIC 23	Uncertainty over Income Tax Treatments

Other than as noted below, 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.

IFRS 16 "Leases" ("IFRS 16")

IFRS 16 replaces IAS 17 "Leases" ("**IAS 17**") along with three Interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease" ("**IFRIC 4**"), SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). IFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current year. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

As a Lessee

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5.5% per annum.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	RMB'000
Total operating lease commitments disclosed at 31 December 2018 (note 13(a))	1,117
Recognition exemptions:	
– Leases with remaining lease term of less than 12 months	(118)
Operating leases liabilities before discounting	999
Discounting using incremental borrowing rate as at 1 January 2019	(103)
Operating leases liabilities recognised under IFRS 16 at 1 January 2019	896
Classified as:	
– Current lease liabilities	275
– Non-current lease liabilities	621
	896

As a Lessor

Upon initial application of IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16. Comparative information is not restated.

The following table summarises the impact of transition to IFRS 16 on the Group's consolidated statement of financial position at 1 January 2019:

	RMB'000
Increase in right-of-use assets presented in property, plant and equipment	896
Increase in lease liabilities	(896)

2.2 Issued but not effective IFRSs

At the date of authorisation of these consolidated financial statements, 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 Contract[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Amendments to IAS 1 and IAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective date not yet determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended IFRSs are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

The amendments also:

- introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;
- clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold "could influence" with "could reasonably be expected to influence" in the definition of material; and
- clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements for much of the financial information they need).

Amendments to IAS 1 and IAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The directors expect that the amendments have no material impact on the Group's consolidated financial statements.

3. 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:

	2019	2018
	RMB'000	*RMB'000*
Revenue from external customers and recognised over time		
Property management services	**168,379**	155,327
Community value-added services	**54,105**	55,252
Value-added services to non-property owners	**25,791**	13,871
	248,275	224,450

Geographical information

The major operating entities of the Group are domiciled in the PRC. As at 31 December 2019 and 2018, 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 year ended 31 December 2019, revenue from companies controlled by the Controlling Shareholder contributed 15.3% (2018: 13.0%) 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.

a) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	2019	2018
	RMB'000	*RMB'000*
Contract liabilities	**58,297**	73,116

Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying services are yet to be provided. Decrease in contract liabilities as at 31 December 2019 was primarily due to less advance payments were made by the property owners as compared to that of prior year.

b) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised related to carried-forward contract liabilities.

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the year		
Property management services	**66,653**	41,865
Community value-added services	**4,313**	3,697
	70,966	45,562

c) Unsatisfied performance obligations

For property management services, the Group recognises revenue in the amount that equals to the right to invoice which correspond directly with the value to the customer of the Group's performance to date, on a monthly basis. The Group has elected the practical expedient for not to disclose the remaining performance obligation for these types of contracts. The term of the contracts for value-added services to non-property owners is generally set to expire when the counterparties notify the Group that the services are no longer required.

For community value-added services, they are rendered in short period of time and there is no unsatisfied performance obligation at the reporting date.

4. OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**654**	293
Exchange gain	**1,348**	–
Reversal of expected credit loss ("**ECL**") allowance on trade and other receivables *(note 9)*	**4,534**	–
Unconditional government subsidy income	**2,493**	1,190
Sundry income	**248**	90
	9,277	1,573

5. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

		2019	2018
		RMB'000	*RMB'000*
			(Note)
(a)	**Finance costs**		
	Interest expenses on lease liabilities	**150**	–
(b)	**Other items**		
	Auditor's remuneration	**1,216**	–
	Amortisation of intangible assets	**257**	58
	Depreciation of property, plant and equipment		
	– Owned assets	**941**	612
	– Right-of-use assets	**1,114**	–
	Depreciation of investment properties	**1,086**	1,085
	ECL allowance on trade and other receivables *(note 9)*	**–**	2,986
	Loss on disposal of property, plant and equipment	**28**	42
	Write-off of intangible assets	**–**	3
	Lease charges:		
	– Premises held under operating leases	**–**	1,039
	– Short term leases and leases with lease term shorter than 12 months as at initial application of IFRS 16	**146**	–

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.1.

6. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax – PRC enterprise income tax		
Current year	**7,381**	9,805
Deferred tax		
Origination and reversal of temporary differences	**1,135**	4,104
Effect on deferred tax balances resulting from changes in tax rates	**905**	(390)
	2,040	3,714
Total income tax expense	**9,421**	13,519

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 years ended 31 December 2019 and 2018.

(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 during the years ended 31 December 2019 and 2018.

(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 years ended 31 December 2019 and 2018, 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 years ended 31 December 2019 and 2018.

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 years ended 31 December 2019 and 2018. 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 each of the years ended 31 December 2019 and 2018, were also entitled a tax concession for 75% and 50% of its taxable income, 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%.

7. DIVIDENDS

In July 2018, a special dividend amounting to RMB21,600,000 has been proposed, approved and paid by Beijing Hongsheng to its then shareholders. On 14 February 2019, a special dividend of RMB25,400,000 has been declared, approved and paid to the then shareholders.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2019.

8. 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 Reorganisation and the Capitalisation Issue (as defined and detailed in note 11(ii) and note 11(iii) respectively) as if the Reorganisation and Capitalisation Issue had been completed on 1 January 2018.

a) Basic earnings per share

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

	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**13,793**	16,886
Number of ordinary shares for the purpose of calculating basic earnings per share *(thousands)*	**347,397**	300,000
Basic earnings per share *(expressed in RMB cents per share)*	**3.97**	5.63

b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2019 and 2018 equals the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years.

9. TRADE AND OTHER RECEIVABLES

	Notes	2019 RMB'000	2018 RMB'000
Trade receivables	*(a)*		
– Third parties		**36,111**	40,894
– Related parties		**4,104**	38,947
		40,215	79,841
Less: ECL allowance of trade receivables		**(10,847)**	(13,636)
		29,368	66,205
Other receivables	*(b)*		
Deposits, prepayment and other receivables		**28,518**	3,224
Payment on behalf of property owners		**5,550**	4,794
Advances to employees		**194**	1,494
Amounts due from related parties		**–**	7,647
Deferred IPO costs		**–**	3,453
		34,262	20,612
Less: Deposit paid for acquisition of subsidiaries included in non-current assets	*13(b)*	**(24,875)**	–
		9,387	20,612
Less: ECL allowance of other receivables		**–**	(1,745)
		9,387	18,867
		38,755	85,072

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:

	2019	2018
	RMB'000	*RMB'000*
0 – 90 days	**11,772**	18,487
91 – 180 days	**4,121**	4,483
181 – 365 days	**5,262**	5,636
1 to 2 years	**3,727**	28,879
Over 2 years	**4,486**	8,720
	29,368	66,205

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

	2019	2018
	RMB'000	*RMB'000*
Balance at the beginning of the year	**13,636**	10,650
ECL allowance (reversed)/recognised	**(2,789)**	2,986
Balance at the end of the year	**10,847**	13,636

The Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors.

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

b) **Other receivables**

Payment on behalf of property owners

The balance mainly represents the payments on behalf of property owners in respect of utilities and maintenance costs of the properties.

Advances to employees

Advances to employees mainly represent advances for various expenses to be incurred in the ordinary course of business.

ECL allowance of other receivables

Impairment on other receivables from third parties (excluding prepayments, advance to employees and deferred IPO costs) are assessed individually and measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. Impairment on amounts due from related parties was limited to 12-month expected credit losses since the related parties have a strong capacity to meet its contractual cash flow in the near term.

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

	2019	2018
	RMB'000	*RMB'000*
Balance at the beginning of the year	**1,745**	1,745
ECL allowance reversed	**(1,745)**	–
Balance at the end of the year	**–**	1,745

10. TRADE AND OTHER PAYABLES

	Note	2019	2018
		RMB'000	*RMB'000*
Trade payables			
– Third parties	*(a)*	**10,513**	7,740
Other payables			
Accrued charges and other payables		**19,207**	20,163
Amounts collected on behalf of property owners		**20,997**	28,556
Other tax liabilities		**3,763**	4,623
Staff costs and welfare accruals		**18,147**	21,522
Amounts due to related parties		**1,308**	5,346
		63,422	80,210
		73,935	87,950

(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:

	2019	2018
	RMB'000	*RMB'000*
0 to 30 days	**9,000**	5,480
31 to 180 days	**952**	1,169
181 to 365 days	**6**	298
Over 1 year	**555**	793
	10,513	7,740

11. SHARE CAPITAL

The share capital as at 1 January 2018 represents the combined paid-in capital of the companies now comprising the Group, after elimination of inter-company investments. With the completion of the Reorganisation on 26 December 2018, the Company became the holding company of the Group and the combined paid-in capital of RMB30,000,000, being the capital contribution from the shareholders, were transferred to capital reserve.

	Note	**Number of shares**	**Nominal value of shares** *United States dollar ("**US$**")*
Authorised:			
Ordinary shares of the Company:			
Ordinary shares upon incorporation and at 31 December 2018, 1 January 2019 and 31 December 2019	*(i)*	5,000,000,000	50,000

	Notes	**Number of shares**	**Nominal value of shares** *US$*	**Equivalent nominal value of shares** *RMB'000*
Issued and fully paid:				
Ordinary shares of the Company:				
Issuance upon incorporation	*(i)*	100	–	–*
Allotment of shares	*(ii)*	104,634	1	–*
As at 31 December 2018 and 1 January 2019		104,734	1	–*
Capitalisation issue	*(iii)*	299,895,266	2,999	21
Issuance of new shares in connection with the listing of the Company's shares	*(iv)*	100,000,000	1,000	7
At 31 December 2019		**400,000,000**	**4,000**	**28**

* The balance represents amount less than RMB1,000.

Notes:

(i) The Company was incorporated in the Cayman Islands on 28 May 2018 with an authorised share capital of US$50,000 divided into 5,000,000,000 ordinary shares of par value of US$0.00001 each. On incorporation, 100 ordinary share was issued at par to the shareholders of the Company.

(ii) Pursuant to the Reorganisation, on 19 July 2018 and 26 December 2018, 900 shares and 99,000 shares were allotted and issued to the shareholders of the Company, respectively. On 26 December 2018, the Company allotted and issued additional 4,734 shares at par value of US$0.00001 each to the then shareholder of Rime Venture Limited ("**Rime Venture**") as consideration in exchange for 100% equity interest in Rime Venture. These shares rank pari passu with the existing shares in all respects.

(iii) 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, 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.

(iv) 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.

12. 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 these consolidated financial statements.

13. COMMITMENTS

a) Lease commitments

As lessor

The Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2019	2018
	RMB'000	*RMB'000*
Within one year	**686**	886
In the second to fifth years	**2,743**	1,845
After five years	**1,029**	–
	4,458	2,731

As lessee

At the reporting date, the lease commitments for short-term leases (2018: total future minimum lease payments payable by the Group under non-cancellable operating leases) are as follows:

	2019	2018
	RMB'000	*RMB'000*
Within one year	**60**	442
In the second to fifth years	**–**	675
	60	1,117

b) Capital commitments

On 28 December 2019, Beijing Hongsheng, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Tongjin Real Estate Development Ltd. SH (上海同進置業有限公司) (the "**First Seller**") and Huzhou Yihong Enterprise Management Consulting Limited Liability Partnership (湖州懿宏企業管理諮詢合夥企業(有限合夥)) (the "**Second Seller**", and together with the First Seller, the "**Sellers**"), independent third parties, pursuant to which Beijing Hongsheng agreed to acquire 70% equity interests of Shanghai Tongjin Property Management Services Co. Ltd ("**Shanghai Tongjin**"), from the Sellers for an aggregate cash consideration of RMB29,590,000. As at 31 December 2019, the Group had paid a deposit of RMB24,875,000 to the Sellers, and accordingly, the Group had capital commitment of RMB4,715,000 for acquisition of Shanghai Tongjin.

14. NON-ADJUSTING EVENTS AFTER THE REPORTING DATE

Save as disclosed elsewhere in this announcement, the following significant events took place subsequent to 31 December 2019:

a) Completion of acquisition of Shanghai Tongjin

On 22 January 2020, the acquisition of Shanghai Tongjin (as detailed in note 13(b)) was completed and accordingly, Shanghai Tongjin became a non-wholly owned subsidiary of the Company.

b) Impact of outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak")

Following the COVID-19 outbreak in early 2020, a series of additional precautionary and control measures have been implemented by the Group, including extension of the Chinese New Year holiday of the Group's employees, certain restriction and control measures over the travelling of people and traffic arrangements and enhancing hygiene and epidemic prevention measures in the communities, etc.

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 is not yet able to quantify the aforesaid influence due to the COVID-19 outbreak. However, 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.

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

The Group is a reputable market player in the property management industry in China, providing (i) property management services, (ii) community value-added services and (iii) value-added services to non-property owners in the PRC for more than 17 years. According to the China Index Academy, it was ranked 44th among the "2019 Top 100 Property Management Enterprises" (2019中國物業服務百強企業) in terms of overall strength of property management (中國物業管理綜合實力) in 2019, and it was considered as a growing China Top 100 Property Management Company from 2017 to 2019 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. As at 31 December 2019, the Group managed 36 property management projects across 11 cities in the PRC with a total contracted gross floor area ("**GFA**") of over 8.2 million sq.m. and a total revenue-bearing GFA of 6.6 million sq.m..

In December 2019, 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 consideration of RMB29.6 million. After the acquisition, the total number of the Group's property management projects is increased to 70, the GFA of properties under management is increased to approximately 11.9 million sq.m and the total revenue-bearing GFA is approximately 10.0 million sq.m. The geographical coverage in China is expanded to 16 cities. The Group's coverage of geographical regions in China now include the northern region, southwest region, northeast region, southern region and east region. The Group believe that the acquisition is a cost-effective way to grow its service offerings and property management portfolio in new geographic markets. The acquisition can create synergies with the business of the Group by combining the existing strength and experience of Shanghai Tongjin in property management in the Yangtze River Delta region of the PRC. 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, among others, security, cleaning, greening, gardening services as well as repair and maintenance services, with a focus on residential communities. The Group's property management portfolio also covers other types of properties such as commercial properties. As at 31 December 2019, the Group managed 36 property management projects with a total revenue-bearing GFA of approximately 6.6 million sq.m., covering 11 cities in the PRC across four geographical regions in China, including northern region, southwest region, northeast region and southern region.

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 year ended 31 December 2019:

	31 December 2019				31 December 2018			
	Revenue		**Revenue-bearing GFA**		Revenue		Revenue-bearing GFA	
	RMB'000	***%***	***'000 sq.m.***	***%***	*RMB'000*	*%*	*'000 sq.m.*	*%*
Northern China	**71,113**	**42.2**	**3,077**	**46.3**	64,769	41.7	2,876	45.3
Northeastern China	**12,550**	**7.5**	**573**	**8.6**	12,491	8.0	477	7.5
Southwestern China	**60,375**	**35.9**	**2,218**	**33.4**	56,003	36.1	2,218	35.0
Southern China	**24,341**	**14.4**	**776**	**11.7**	22,064	14.2	776	12.2
Total	**168,379**	**100.0**	**6,644**	**100.0**	155,327	100.0	6,347	100.0

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 year, 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 our 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:

	31 December 2019				31 December 2018			
	Revenue generated from property management services		**Revenue-bearing GFA**		Revenue generated from property management services		Revenue-bearing GFA	
	RMB'000	***%***	***'000 sq.m.***	***%***	*RMB'000*	*%*	*'000 sq.m.*	*%*
Residential properties	**152,838**	**90.8**	**6,311**	**95.0**	141,816	91.3	6,014	94.8
Non-residential properties	**15,541**	**9.2**	**333**	**5.0**	13,511	8.7	333	5.2
Total	**168,379**	**100.0**	**6,644**	**100.0**	155,327	100.0	6,347	100.0

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 property owners and residents, to enhance their customer experience, satisfaction and royalty, 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.

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 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.

PROSPECTS AND FUTURE PLANS

Acquisition of third-party property management companies

In addition to organic growth, acquisition of property management companies is another efficient means of the Group's expansion, especially in new geographic markets. The Group plans to explore acquisition targets mainly in the cities which the Group already has property management business to further strengthen its market presence in these areas. The Group will continue to penetrate its property management services with priority in the Beijing – Tianjin area as there has been an upward trend for the demand for, and supply of, residential properties in these areas. The Group plans to seek potential acquisition targets with a younger management team with relevant experience and determination to develop property management business. The Group primarily looks for medium-sized property management companies, with a revenue-bearing GFA between 1.0 million to 4.0 million sq.m. which has the potential for future growth in property management. The Group plans to use approximately RMB34.5 million of net proceeds from the listing, together with internal source of funds to fund the potential acquisitions in the near future.

Further expand the scale of property management business and increase operational efficiency

For the next three years, the Group expects to undertake new high-end residential community projects from Hevol Real Estate Group Limited (和泓置地集團有限公司) and its subsidiaries (the "**Hevol Real Estate Group**"), which will allow the Group to further strengthen its market presence in the cities which it already has property management business. Moreover, the Group will continue to diversify its property management portfolio through securing new property management engagements developed by third party developers or institutions with attractive investment returns in public bidding. Such strategy will increase the number of the Group's property management projects on a long-term basis. Furthermore, the Group seeks to increase its operation by expanding and diversifying its property management portfolio of non-residential properties, such as office space, retail business and other public facilities. The Group continues to explore strategic investments in, and acquisition of, other property management companies that will create synergies with the Group's business. By broadening the property portfolio, the Group will be able to enhance the allocation, utilisation and sharing of resources across different properties in its portfolio, as well as to increase its market presence and brand recognition in the relevant local markets.

Further enhance the levels of standardisation and smart management in the Group's service process in order to increase operational efficiency and improve customer satisfaction

The Group plans to continue providing high quality services to its customers through standardisation and smart management in the service process, which enables it to strengthen its operational efficiency and control its costs effectively. To increase the cost efficiency and improve service quality, the Group plans to further streamline and standardise the comprehensive and diverse property management services provided by the Group and its sub-contractors, while maintaining the flexibility to respond to customer specific requests and market changes. In view of this, the Group plans to improve its processes on a regular basis, through further standardisation and implementation of the improved standards across all of its property management projects. The Group's current information technology system mainly serves to manage key operational functions such as processing financial data, facilitating communications, managing customers' information and payment records, and implementing internal approval processes. The Group's smart management systems currently include, for instance, smart car parking system, smart patrol system and video surveillance. The Group plans to further strengthen its standardised operations through upgrading its information technology and smart management systems, as well as to further reduce service costs and improve service standards.

Continue to incentivise, retain and recruit talents in order to better the human resources management

The Group will continue to recruit, develop and retain talents by offering competitive remuneration packages and strengthening internal promotion opportunities. In addition, it will continue to cultivate entrepreneurial working environment to strengthen its employees' responsibilities and to elevate the corporate culture. By strengthening interactions and cooperation among the employees, the Group can enhance its operational efficiency, loyalty, job satisfaction, and thus its overall business operation.

Impact of Coronavirus Disease 2019 ("COVID-19")

The COVID-19 outbreak in early 2020 has spread across mainland China and beyond, causing disruptions to businesses and economic activities. The Group actively assumed the social responsibility to prevent the epidemic from spreading and safeguard the life, health and safety of property owners and its employees to the greatest extent possible. The Group promptly carried out measures to mitigate the potential impacts by enhancing hygiene and epidemic prevention measures, and strengthening epidemic safety education, to increase awareness of safety and risk prevention.

Although the COVID-19 outbreak has brought negative impact to the Group, in short term, the management believes that the Group will further reduce services costs by upgrading its information technology and smart management systems, while improving service standards.

In view of the rapid spread of COVID-19 outbreak, the Group is not able to estimate the potential impact on the Group's financial performance at present stage. However, the Group will continue to review the contingency measures and evaluate risk management effectiveness, and to provide the best services and support to the property owners during such difficult time. At the same time, the Group will seize the opportunities of new-value added business and models due to the changing demands of property owners and make every effort to work towards its business goals for 2020.

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 23.8 million or 10.6% from approximately RMB224.5 million in 2018 to approximately RMB248.3 million in 2019.

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

	Year ended 31 December					
	2019		2018		**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Property management services	**168,379**	**67.8**	155,327	69.2	13,052	8.4
Community value-added services	**54,105**	**21.8**	55,252	24.6	(1,147)	(2.1)
Value-added services to non-property owners	**25,791**	**10.4**	13,871	6.2	11,920	85.9
Total	**248,275**	**100.0**	224,450	100.0	23,825	10.6

Overall revenue increased by approximately RMB23.8 million, or 10.6% from RMB224.5 million in 2018 to RMB248.3 million in 2019, such growth was primarily attributable to an increase in revenue from property management services and an increase in revenue from value-added services to non-property owners, which was in line with its business growth.

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, and the revenue increased by approximately RMB13.1 million or 8.4% from approximately RMB155.3 million in 2018 to approximately RMB168.4 million in 2019. Such increase was primarily attributable to the increase in the total GFA under management resulting from the business expansion through organic growth. Revenue-bearing GFA increased by 4.8% from 6.3 million sq.m. as at 31 December 2018 to 6.6 million sq.m. as at 31 December 2019, primarily due to an increasing number of property management projects from 34 in 2018 to 36 in 2019.

Community value-added services

Revenue from community value-added services is divided into three sections including home-living services, leasing of car parking space and leasing of common facilities, which amounted to approximately RMB23.8 million, RMB18.9 million and RMB11.4 million, respectively for the year ended 31 December 2019. Revenue from home-living services, leasing of car parking space and leasing of common facilities amounted to approximately RMB21.8 million, RMB21.1 million and RMB12.4 million, respectively, for the year ended 31 December 2018.

For the years ended 2018 and 2019, revenue from community value-added service represented approximately 24.6% and approximately 21.8% of the Group's total revenue respectively. The decrease of RMB1.1 million or 2.1% from approximately RMB55.3 million to approximately RMB54.1 million was due to: (i) a decrease in revenue from leasing of car parking space resulted from the decreasing number of leased car-parking spaces, and (ii) a decrease in revenue from leasing of common facilities resulted from strict governance on placing of advertisements in public area by local authorities.

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 RMB11.9 million, or 85.9% from approximately RMB13.9 million in 2018 to approximately RMB25.8 million in 2019. The increase in revenue was because Hevol Real Estate Group had more properties under development which reached the selling stages and required the Group's sales assistance services in 2019 compared to 2018.

Cost of Sales

Cost of sales of the Group primarily comprises staff costs, sub-contracting costs, utility expenses, repairs and maintenance costs, material costs and sales taxes. Cost of sales increased by approximately RMB20.1 million or 14.0% from approximately RMB144.0 million in 2018 to approximately RMB164.1 million in 2019. Such increase 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. The increase of the Group's sub-contracting costs by approximately RMB21.2 million, or 40.5% for the year ended 31 December 2019 compared to 2018 was due to an increase in its revenue-bearing GFA under management resulting from the expansion of property management services business.

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 years indicated:

	Year ended 31 December					
	2019		2018			
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Property management services	**50,299**	**29.9**	48,388	31.2	1,911	3.9
Community value-added services	**29,707**	**54.9**	29,936	54.2	(229)	(0.8)
Value-added services to non-property owners	**4,127**	**16.0**	2,168	15.6	1,959	90.3
Total	**84,133**	**33.9**	80,492	35.9	3,641	4.5

Overall gross profit of the Group increased by approximately RMB3.6 million, or 4.5% from approximately RMB80.5 million in 2018 to approximately RMB84.1 million in 2019. The increase in gross profit of each segment is in line with the increase in revenue of each segment, primarily due to the increase in gross profit resulted from the expansion of the Group's business scale. Overall gross profit margin of the Group decreased from approximately 35.9% in 2018 to approximately 33.9% in 2019. Such decrease was attributable to an increase in sub-contracting costs resulted from completion of new construction phases of the Group's existing property management projects as well as the increase in number of property management projects.

Property management services

Gross profit for the Group's property management services increased by approximately RMB1.9 million, or 3.9% from approximately RMB48.4 million in 2018 to approximately RMB50.3 million in 2019. The increase of gross profit is primarily attributable to (i) an increase in revenue-bearing GFA 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 slightly decreased from approximately 31.2% in 2018 to 29.9% in 2019 mainly due to an increase in sub-contracting costs incurred for completion of new construction phases of the Group's existing property management projects and the increase in the number of property management projects.

Community value-added services

Gross profit for the Group's community value-added services decreased slightly by RMB0.2 million, or 0.8% from approximately RMB29.9 million in 2018 to approximately RMB29.7 million in 2019 due to an increase of repairs and maintenance costs related to an increase in the number of property management projects. Gross profit margin remained stable at 54.9% for the year ended 31 December 2019.

Value-added services to non-property owners

Gross profit of value-added services to non-property owners increased by approximately RMB2.0 million, or 90.3% from approximately RMB2.2 million in 2018 to approximately RMB4.1 million in 2019. Such changes were in line with the number of property projects under development by Hevol Real Estate Group, which reached the selling phases and required the Group's sales assistance services during the year. Gross profit margin remained relatively stable for the year ended 31 December 2019, primarily because the fee rates charged to property developers, the sub-contracting costs and staff costs remained relatively stable during the year.

Other Income

The increase of other income by RMB7.7 million, or 481.3% from approximately RMB1.6 million in 2018 compared to approximately RMB9.3 million in 2019 was primarily attributable to an increase of exchange gain of approximately RMB1.3 million, reversal of ECL allowance on trade and other receivables of approximately RMB4.5 million and an increase in receipt of unconditional government subsidy of approximately RMB1.3 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 RMB12.4 million, or 31.0% from approximately RMB40.0 million in 2018 to approximately RMB52.4 million in 2019, primarily due to: (i) an increase in staff costs resulted from the increase in the business scale of the Group; (ii) an increase in professional fees in relation to annual audit, legal and financial consultancy after listing, and (iii) the acquisition of subsidiaries.

Income Tax Expenses

Income tax expenses of the Group decreased by approximately RMB4.1 million, or 30.4% from approximately RMB13.5 million in 2018 to approximately RMB9.4 million in 2019, primarily due to a decrease in applicable tax rate of certain of its subsidiaries and a decrease in origination and reversal of temporary differences.

Profit and Total Comprehensive Income for the Year

Profit and total comprehensive income for the year of the Group decreased by approximately RMB3.1 million, or 18.3% from approximately RMB16.9 million in 2018 to approximately RMB13.8 million in 2019, primarily due to the increase in (i) listing-related expenses of approximately RMB6.0 million; (ii) staff costs of approximately RMB1.8 million, and (iii) professional fees of approximately RMB4.9 million in administrative expenses.

Investment Properties

As at 31 December 2019, investment properties, which consist of certain carparking spaces and shop premises, decreased from RMB32.0 million in 2018 to RMB30.9 million in 2019 mainly due to depreciation.

Deposit paid for acquisition of subsidiaries

Deposit paid for acquisition of subsidiaries of approximately RMB24.9 million as at 31 December 2019 represented the deposit paid for acquisition of Shanghai Tongjin. On 28 December 2019, Beijing Hongsheng, a wholly-owned subsidiary of the Company, entered into a sales and purchase agreement with Tongjin Real Estate Development Ltd. SH (上海同進置業有限公司) (the "**First Seller**") and Huzhou Yihong Enterprise Management Consulting Limited Liability Partnership (湖州懿宏企業管理諮詢合夥企業(有限合夥)) (the "**Second Seller**", and together with the First Seller, the "**Sellers**"), pursuant to which Beijing Hongsheng agreed to acquire 70% equity interests of Shanghai Tongjin from the Sellers for an aggregate cash consideration of RMB29,590,000. As at 31 December 2019, the Group had paid a deposit of RMB24,875,000 to the Sellers.

Trade and Other Receivables

Trade receivables are mainly related to property management services as well as value-added services. Trade receivables of the Group decreased from approximately RMB66.2 million as at 31 December 2018 to approximately RMB29.4 million as at 31 December 2019, primarily due to a decrease in trade receivables in respect of property management fees, as result of the Group's effort to facilitate the fee collection process.

Other receivables mainly consist of deposits and payment on behalf of property owners. Other receivables of the Group decreased from approximately RMB18.9 million as at 31 December 2018 to approximately RMB9.4 million as at 31 December 2019, primarily due to repayment of amounts due from related parties of RMB7.6 million and recognition of deferred IPO costs of 2018 of approximately RMB3.5 million.

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. The decrease of contract liabilities of the Group from approximately RMB73.1 million as at 31 December 2018 to approximately RMB58.3 million as at 31 December 2019, was mainly due to the reduction of advance payment for property management services yet to be provided.

Trade and Other Payables

Trade payables mainly represent the obligations to pay suppliers for procurements in the ordinary course of business. Trade payables of the Group increased from approximately RMB7.7 million as at 31 December 2018 to approximately RMB10.5 million as at 31 December 2019, primarily attributable to an increase in purchase of subcontracting services, materials and utilities for the Group's business expansion.

Other payables mainly consist of accrued staff costs, deposits received and amounts collected on behalf of property owners. The decrease of other payables of the Group from approximately RMB80.2 million as at 31 December 2018 to approximately RMB63.4 million as at 31 December 2019 was primarily due to (i) net repayment of amounts due to related parties of approximately RMB4.0 million; (ii) decrease in staff costs and welfares accruals of approximately RMB3.4 million resulted from payment of bonus before year end, and (iii) decrease of amounts collected on behalf of property owners of approximately RMB7.6 million resulted from payment of utilities for property owners before year end.

Liquidity, Capital Structure and Financial Resources

As at 31 December 2019, the Group's bank balances and cash increased by approximately RMB65.4 million from approximately RMB134.4 million as at 31 December 2018 to approximately RMB199.8 million, primarily due to (i) collection of trade receivables through the improved process to collect outstanding property management fees from property owners, and (ii) proceeds from the listing. The Group's financial position remained stable. As at 31 December 2019, the Group's net current assets increased from approximately RMB44.0 million as at 31 December 2018 to approximately RMB103.3 million as at 31 December 2019. The Group's current ratio was approximately 1.76 times (31 December 2018: approximately 1.25 times). As at 31 December 2019, the Group did not have any borrowings.

Proceeds from the Listing

The Company was listed on the Main Board of the Stock Exchange on 12 July 2019 and issued 100,000,000 new shares. After deducting underwriting fees and relevant expenses, net proceeds from the listing amounted to approximately HK$75.8 million (equivalent to approximately RMB66.6 million). As at 31 December 2019, HK$1.5 million, or 2.0% 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.

- Approximately 51.8% will be used to acquire other property management companies that service residential properties in the PRC;
- Approximately 7.7% will be used to obtain new market opportunities by bidding for new property management projects;
- Approximately 23.1% will be used to invest in advanced technologies and smart communities for the Group's existing property management projects as well as expected new projects to be managed;
- Approximately 14.4% will be used for the expansion of the Group's value added services business segment and the enhancement of the Group's comprehensive service level; and
- Approximately 2.9% will be used for working capital and general corporate purpose.

Asset Charges

As at 31 December 2019, none of the assets of the Group were pledged.

Material Acquisitions and Disposals of Assets

Except for the acquisition of 70% equity interest of Shanghai Tongjin with a consideration of RMB29.6 million, the Group did not have any material acquisitions or disposals of assets as at 31 December 2019.

Significant Investment Held and Future Plans for Material Investment and Capital Assets

During the year 2019, the Group did not have any significant investment, and there was no plan for other material investments or additions of capital assets as at the date of this announcement.

Gearing Ratio

The Group did not have any interest-bearing borrowings as at 31 December 2019 (31 December 2018: Nil).

Contingent Liabilities

As at 31 December 2019, the Group did not have any contingent liabilities (31 December 2018: Nil).

Foreign Exchange Risk

The Group conducts substantially all of its business in the PRC and in Renminbi. Bank and cash balances denominated in Hong Kong dollars were equivalent to approximately RMB25.9 million as at 31 December 2019 and thus was subject to foreign exchange risk. The Group currently does not hedge its foreign exchange risk, but is continuous monitoring the foreign exchange exposure and the management will consider hedging the foreign exchange exposure where there is a material impact on the Group.

Employees and Benefits Policies

As at 31 December 2019, the Group had approximately 996 employees (31 December 2018: approximately 1,013 employees). Employee's remuneration is determined based on the employee's performance, skills, knowledge, experience and market trends. The Group regularly reviews compensation policies and programs, and will make necessary adjustment in order to be in line with the remuneration levels in the industry. In addition to basic salaries, employees may be granted with discretionary bonus and cash awards based on individual performance. The Group offers training to its employees so as to enable them to acquire basic skills to perform their duties and to upgrade or improve the production techniques of existing employees.

CORPORATE GOVERNANCE

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain a high standard of corporate governance. Details of the corporate governance practices will be disclosed in the Company's annual report for the year. The Board is of the view that, since the listing of the Company on 12 July 2019 (the "**Listing Date**"), the Company has complied with all the code provisions on the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company adopts the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the standard for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all the Directors confirmed that they have complied with the required standards set out in the Model Code from the Listing Date up to 31 December 2019.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by the relevant employees of the Group, who are likely to be in possession of inside information of the Company.

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

Shares of the Company became listed on the Stock Exchange on 12 July 2019 by way of global offering. Details of the global offering are set out in the prospectus of the Company dated 27 June 2019.

Save as disclosed above, from the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF ACCOUNTS

The audit committee of the Company (the "**Audit Committee**") was established with written terms of reference in compliance with Appendix 14 to the Listing Rules. The Audit Committee is delegated by the Board to be responsible for reviewing and monitoring the financial reporting, risk management and internal control systems of the Company, and assist the Board to fulfill its responsibility over the audit of the Group. The Audit Committee has reviewed the annual results and the consolidated financial statements of the Group for the year ended 31 December 2019 and reviewed with the management of the Group regarding the accounting principles and practices adopted by the Group, and discussed with them the internal controls and financial reporting matters.

The Audit Committee comprises Dr. Chen Lei, Mr. Fan Chi Chiu and Mr. Qian Hongji, who are independent non-executive Directors.

DIVIDEND

The Board resolved that no final dividend shall be declared for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2019 AGM

The 2019 annual general meeting ("**AGM**") will be held on Friday, 19 June 2020 and for the purpose of determining the Shareholders' eligibility to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 16 June 2020 to Friday, 19 June 2020, both days inclusive, during which period no transfer of the Shares will be registered. In order to qualify for attending and voting at the 2019 AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 15 June 2020.

NOTICE OF ANNUAL GENERAL MEETING

The AGM will be held on 19 June 2020 and a notice convening the AGM will be published and dispatched in the manner as required by the Listing Rules on the Stock Exchange in due course.

PUBLIC FLOAT

The Company has maintained sufficient public float as required under the Listing Rules throughout the period from the Listing Date to 31 December 2019.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditor, Grant Thornton Hong Kong Limited (the "**Auditor**"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the respective websites of the Company at www.hevolwy.com.cn and the Stock Exchange at www.hkex.com.hk. The annual report of the Company for the year ended 31 December 2019 containing all the information required under the Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

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

Hong Kong, 25 March 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.