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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6093)

ANNOUNCEMENT OF THE INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

Overall revenue of the Group increased by approximately RMB147.5 million, or approximately 91.9% from approximately RMB160.4 million for the six months ended 30 June 2020 to approximately RMB307.9 million for the six months ended 30 June 2021. Revenue from property management services amounted to approximately RMB233.5 million for the six months ended 30 June 2021, representing an increase of approximately 93.5% compared to approximately RMB120.7 million for the corresponding period in 2020, accounting for approximately 75.8% of the Group's total revenue for the six months ended 30 June 2021; revenue from community value-added services was approximately RMB36.0 million for the six months ended 30 June 2021, representing an increase of approximately 48.7% compared to approximately RMB24.2 million for the corresponding period in 2020; revenue from value-added services to non-property owners amounted to approximately RMB38.3 million for the six months ended 30 June 2021, representing an increase of approximately 147.3% compared to approximately RMB15.5 million for the corresponding period in 2020.

Gross profit amounted to approximately RMB110.5 million for the six months ended 30 June 2021, representing an increase of approximately 102.1% from approximately RMB54.7 million for the corresponding period in 2020. Gross profit margin was approximately 35.9% for the six months ended 30 June 2021, representing a year-on-year increase of approximately 1.8 percentage points compared to approximately 34.1% for the corresponding period in 2020. The improvement in gross profit margin was mainly due to benefits of economic of scale resulted from an increase in the number of property management projects and effective cost control policy imposed by the Group.

Profit after tax for the six months ended 30 June 2021 amounted to approximately RMB43.6 million, representing an increase of approximately 100.9% compared to approximately RMB21.7 million for the corresponding period in 2020. The increase in profit after tax was mainly attributable to: (i) the expansion of business scale and an increasing number of property management projects; (ii) the inclusion of profits of newly acquired subsidiaries; and (iii) an increase in ancillary services provided to Hevol Real Estate Group.

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 2021 (the “Reporting Period”), together with the comparative figures for the corresponding period of 2020, 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 2021

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	307,859	160,413
Cost of sales		<u>(197,328)</u>	<u>(105,727)</u>
Gross profit		110,531	54,686
Other income	5	4,371	3,068
Expected credit loss (“ECL”) allowance		(7,561)	(1,983)
Administrative expenses		(54,711)	(25,800)
Finance costs	6(a)	<u>(60)</u>	<u>(110)</u>
Profit before income tax	6(b)	52,570	29,861
Income tax expense	7	<u>(8,937)</u>	<u>(8,137)</u>
Profit for the period		<u>43,633</u>	<u>21,724</u>
Other comprehensive income for the period			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation of financial statements of overseas operations		<u>405</u>	<u>–</u>
Total comprehensive income for the period		<u>44,038</u>	<u>21,724</u>
Profit for the period attributable to:			
Equity shareholders of the Company		35,094	21,020
Non-controlling interests		<u>8,539</u>	<u>704</u>
		<u>43,633</u>	<u>21,724</u>
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		35,499	21,020
Non-controlling interests		<u>8,539</u>	<u>704</u>
		<u>44,038</u>	<u>21,724</u>
Earnings per share attributable to equity shareholders of the Company (expressed in RMB cents per share)			
Basic and diluted	9	<u>6.44</u>	<u>5.21</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		As at 30 June 2021	As at 31 December 2020
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	<i>10</i>	15,839	13,886
Intangible assets		58,622	24,869
Investment properties		29,274	29,817
Goodwill		150,074	59,626
Deposit paid for acquisition of subsidiaries		–	7,800
Deferred tax assets		8,463	6,573
		<u>262,272</u>	<u>142,571</u>
Current assets			
Inventories		407	178
Trade and other receivables	<i>11</i>	243,499	167,544
Financial assets at fair value through profit or loss		–	11,446
Bank balances and cash		365,645	291,507
		<u>609,551</u>	<u>470,675</u>
Current liabilities			
Contract liabilities		82,168	80,444
Trade and other payables	<i>12</i>	225,671	178,070
Lease liabilities		1,379	1,970
Income tax liabilities		13,974	13,004
		<u>323,192</u>	<u>273,488</u>
Net current assets		<u>286,359</u>	<u>197,187</u>
Total assets less current liabilities		<u>548,631</u>	<u>339,758</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Non-current liabilities			
Lease liabilities		142	642
Deferred tax liabilities		<u>20,186</u>	<u>11,917</u>
		<u>20,328</u>	<u>12,559</u>
Net assets		<u><u>528,303</u></u>	<u><u>327,199</u></u>
EQUITY			
Share capital	13	39	34
Reserves		<u>474,034</u>	<u>307,136</u>
Equity attributable to equity shareholders of the Company		<u>474,073</u>	307,170
Non-controlling interests		<u>54,230</u>	<u>20,029</u>
Total equity		<u><u>528,303</u></u>	<u><u>327,199</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL INFORMATION

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

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

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

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

This interim condensed consolidated financial information (the “**Interim Financial Information**”) is presented in Renminbi (“**RMB**”), unless otherwise stated. The Interim Financial Information was approved for issue by the board of directors on 27 August 2021 and has not been audited.

2. BASIS OF PREPARATION

This Interim Financial Information has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “**IASB**”). The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2020.

The Group has not early adopted any International Financial Reporting Standards (“**IFRSs**”) that has been issued but is not yet effective. The accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2020 except for the adoption of the new and amended IFRSs as set out below:

(a) New and amended IFRSs adopted as at 1 January 2021

In the current period, the Group has applied for the first time the new and amended IFRSs, which are relevant to the Group’s operations and effective for the Group’s Interim Financial Information for the annual period beginning on 1 January 2021.

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

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.

(b) Issued but not yet effective IFRSs

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

IFRS 17	Insurance Contracts and related amendments ²
Amendments to IFRS 3	Reference to the Conceptual Framework ⁴
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 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ⁵
Amendments to IAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to IAS 8	Definition of Accounting Estimates ²
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use ¹
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020 ¹

¹ Effective for annual periods beginning on or after 1 June 2022

² Effective for annual periods beginning on or after 1 January 2023

³ Effective date not yet determined

⁴ Effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022

⁵ Effective for annual periods beginning on or after 1 April 2021

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

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 Group. The CODM reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regard that there is only one segment which is used to make strategic decisions.

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

	Six months ended 30 June	
	2021 RMB’000 (Unaudited)	2020 RMB’000 (Unaudited)
Revenue from external customers and recognised over time		
Property management services	233,481	120,673
Community value-added services	35,639	23,179
Value-added services to non-property owners	38,318	15,493
	<u>307,438</u>	<u>159,345</u>
Leasing income (not within the scope of IFRS 15)		
Community value-added services	421	1,068
	<u>307,859</u>	<u>160,413</u>

Geographical information

The major operating entities of the Group are domiciled in the PRC. As at 30 June 2021 and 31 December 2020, substantially all of the non-current assets (other than deferred tax assets and financial instruments) of the Group and the location of the operations to which intangible assets and goodwill allocated were located in the PRC.

Information about major customers

For the six months ended 30 June 2021, revenue from companies controlled by the Controlling Shareholder or non-controlling interests contributed 15.8% (six months ended 30 June 2020: 9.5%) 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	780	416
Exchange gain	642	417
Unconditional government subsidy income	2,166	2,016
Sundry income	783	219
	<u>4,371</u>	<u>3,068</u>

6. **PROFIT BEFORE INCOME TAX**

Profit before income tax has been arrived at after charging:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
(a) Finance costs		
Interest expenses on lease liabilities	<u>60</u>	<u>110</u>
(b) Other items		
Amortisation of intangible assets	3,587	799
Depreciation of property, plant and equipment		
– Owned assets	1,106	656
– Right-of-use assets	1,068	1,131
Depreciation of investment properties	543	542
Loss on disposal of property, plant and equipment	3	27
Lease charges:		
– Short-term leases and leases with lease term shorter than 12 months	<u>340</u>	<u>60</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax – PRC enterprise income tax		
Current period	11,180	8,760
Deferred tax		
Origination and reversal of temporary differences	(2,243)	(623)
Total income tax expense	8,937	8,137

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 2021 and 2020.

(c) HONG KONG PROFITS TAX

The provision for Hong Kong profits tax for the six months ended 30 June 2021 and 2020 are calculated at 16.5% of the estimated assessable profits for the periods. For the six months ended 30 June 2021 and 2020, 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 reporting period, based on the existing legislation, interpretations and practices in respect thereof.

The preferential income tax rate applicable to certain of the Group's PRC entities within the scope of the China's Western Development Program was 15% for the six months ended 30 June 2021 and 2020.

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 2021 and 2020. 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 2021 and 2020, 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 2021 and 2020.

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	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit attributable to equity shareholders of the Company (RMB'000)	35,094	21,020
Number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	<u>544,530</u>	<u>403,094</u>
Basic earnings per share (expressed in RMB cents per share)	<u><u>6.44</u></u>	<u><u>5.21</u></u>

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2021 and 2020 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 2021, the Group had an addition of property, plant and equipment with a cost of RMB1,502,000 (six months ended 30 June 2020: RMB606,000) and addition of RMB2,805,000 (six months ended 30 June 2020: RMB7,612,000) by the acquisitions of subsidiaries (note 16). Items of property, plant and equipment with total carrying amount of approximately RMB180,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB27,000).

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

	As at	As at
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Office premises	1,556	2,115
Heating facility	–	201
Staff quarters	<u>161</u>	<u>199</u>
	<u><u>1,717</u></u>	<u><u>2,515</u></u>

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

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Note		
Trade receivables	(a)	
– Third parties	147,368	71,159
– Related parties	<u>30,695</u>	<u>50,147</u>
	<u>178,063</u>	<u>121,306</u>
Less: ECL allowance of trade receivables	<u>(24,570)</u>	<u>(17,009)</u>
	153,493	104,297
Other receivables		
Deposits, prepayment and other receivables	43,383	18,213
Other deposits	24,898	33,495
Payment on behalf of property owners	14,866	18,362
Advances to employees	4,902	453
Amounts due from related parties	<u>1,957</u>	<u>524</u>
	90,006	71,047
Less:		
Deposit paid for acquisition of subsidiaries included in non-current assets	<u>–</u>	<u>(7,800)</u>
	<u>90,006</u>	<u>63,247</u>
	<u>243,499</u>	<u>167,544</u>

(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 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
0 – 90 days	71,491	66,652
91 – 180 days	25,483	10,232
181 – 365 days	39,022	14,276
1 to 2 years	9,383	7,445
Over 2 years	8,114	5,692
	<u>153,493</u>	<u>104,297</u>

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

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Balance at the beginning of the period/year	17,009	10,847
ECL allowance recognised	<u>7,561</u>	<u>6,162</u>
Balance at the end of the period/year	<u>24,570</u>	<u>17,009</u>

12. TRADE AND OTHER PAYABLES

		As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade payables			
– Third parties	(a)	<u>49,083</u>	<u>35,855</u>
Other payables			
Accrued charges and other payables		34,194	16,483
Renovation deposits collected from property owners		36,096	22,306
Amounts collected on behalf of property owners		49,303	55,982
Other tax liabilities		14,481	9,480
Staff costs and welfare accruals		42,514	35,681
Amounts due to related parties		<u>–</u>	<u>2,283</u>
		<u>176,588</u>	<u>142,215</u>
		<u>225,671</u>	<u>178,070</u>

(a) Trade payables

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

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
0 – 30 days	14,924	27,319
31 – 180 days	23,851	7,346
181 – 365 days	9,455	532
Over 1 year	<u>853</u>	<u>658</u>
	<u>49,083</u>	<u>35,855</u>

13. SHARE CAPITAL

	Number of shares	Nominal value of shares <i>United States dollars ("US\$")</i>
Authorised:		
Ordinary shares of the Company:		
Ordinary shares at 31 December 2020, 1 January 2021 and 30 June 2021	5,000,000,000	50,000

	<i>Notes</i>	Number of shares	Nominal value of shares <i>US\$</i>	Equivalent nominal value of shares <i>RMB '000</i>
Issued and fully paid:				
Ordinary shares of the Company:				
As at 1 January 2020		400,000,000	4,000	28
Issue of shares upon placing of shares	<i>(i)</i>	80,000,000	800	6
At 31 December 2020 and 1 January 2021		480,000,000	4,800	34
Issue of shares upon placing of shares	<i>(ii)</i>	80,000,000	800	5
At 30 June 2021		560,000,000	5,600	39

Note:

- (i) On 15 June 2020, the Company entered into a placing agreement with a placing agent in respect of the placing of up to 80,000,000 new shares at an issue price of HK\$1.28 per share. On 24 June 2020, the placing was completed and 80,000,000 new shares were placed by the placing agent to not less than six places at an issue price of HK\$1.28 per share resulting in raising proceeds, before expenses, of HK\$102,400,000 (equivalents to RMB93,330,000), of which RMB6,000 was credited to the share capital account and RMB93,324,000 was credited to the share premium account. The related transaction costs amounted to RMB1,400,000 have been recorded in the share premium account.
- (ii) 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 places at an issue price of HK\$2.00 per share resulting in raising proceeds, before expenses, of HK\$160,000,000 (equivalents to RMB133,405,000), of which RMB5,000 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 2021 <i>RMB’000</i> (Unaudited)	As at 31 December 2020 <i>RMB’000</i> (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 but within five years	685	685
After five years	–	343
	<u>3,429</u>	<u>3,772</u>

As lessee

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

	As at 30 June 2021 <i>RMB’000</i> (Unaudited)	As at 31 December 2020 <i>RMB’000</i> (Audited)
Within one year	<u>84</u>	<u>270</u>

(b) Capital commitments

As at 31 December 2020, the Group had capital commitments of RMB7,700,000, RMB100,000 and RMB42,900,000 in respect of acquisitions of Zhongshan Zhongzheng Property Management Co., Ltd. (“**Zhongshan Zhongzheng**”) (中山市中正物業管理有限公司), Beijing Hongteng Real Estate Investment Consulting Co., Ltd. (“**Beijing Hongteng**”) (北京紅藤房地產投資顧問有限公司) and Sichuan Wansheng Property Service Co., Ltd. (“**Sichuan Wansheng**”) (四川萬晟物業服務有限公司) respectively. The acquisitions were completed in 2021.

16. ACQUISITIONS OF SUBSIDIARIES

During the six months ended 30 June 2021 and 2020, the Group acquired several subsidiaries from independent third parties. The Group considered the 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 acquisitions 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) Acquisitions of subsidiaries during the six months ended 30 June 2021

(i) Principle subsidiaries acquired

	Principal activities	Date of acquisition	Proportion of shares acquired	Cash consideration RMB'000
Zhongshan Zhongzheng	Provision of property management services and related value-added services	4 January 2021	51%	15,400
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 assets acquired and liabilities recognised at the respective date of the acquisitions of principle subsidiaries**

	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 acquisitions of principle subsidiaries**

	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 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.

b) **Acquisitions of subsidiaries during the six months ended 30 June 2020**

(i) **Subsidiaries acquired**

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

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

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

(iii) **Non-controlling interests**

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

(iv) **Goodwill arising on acquisition**

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

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

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

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

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

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

17. MATERIAL RELATED PARTY TRANSACTIONS

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

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Companies controlled by Mr. Liu Jiang or non-controlling interests		
Provision of property management and value-added services	48,603	15,253
Lease payment	363	411
	<u>48,966</u>	<u>15,664</u>

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

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, bonus and allowances	1,233	1,866
Retirement benefit scheme contributions	242	125
	<u>1,475</u>	<u>1,991</u>

18. NON ADJUSTING EVENTS AFTER THE REPORTING DATE

Save as disclosed elsewhere in these condensed consolidated financial statements, the following significant event took place subsequent to 30 June 2021:

- a) Completion of acquisition of Guiyang Xinglong Property Management Co., Ltd. And its subsidiary (“**Guiyang Xinglong**”)

On 22 July 2021, Guizhou Furuiying Information Consultancy Limited (“**Guizhou WFOE**”), an indirect wholly-owned subsidiary of the Company, entered into a sales and purchase agreement with Mr. Qu Peijun (屈培軍) (the “**Seller A**”) and Ms. Fan Dexin (范德新) (the “**Seller B**”, and together with the Seller A, the “**Sellers**”), independent third parties, pursuant to which Guizhou WFOE agreed to acquire 70% equity interests of Guiyang Xinglong (貴陽興隆物業管理有限公司), from the Sellers for an aggregate cash consideration of RMB156,800,000. On 2 August 2021, the acquisition of Guiyang Xinglong was completed and accordingly, Guiyang Xinglong became a non-wholly owned subsidiary of the Company.

19. RECLASSIFICATIONS AND COMPARATIVE FIGURES

Certain reclassifications have been made to the prior period’s condensed consolidated financial statements to enhance comparability with the current period’s condensed consolidated financial statements. As a result, certain line items have been revised in the condensed consolidated statement of profit or loss and other comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

2021 marks the first year of the “14th Five-Year Plan” period, ushering in a period of opportunity for market players in the real estate and property management industry in China. In the outline of the “14th Five-Year Plan”, it is clearly specified that the coverage, quality and standardization of property services in the real estate industry in China shall be further improved. In 2021, ten ministries including the Ministry of Housing and Urban-Rural Development jointly published the Notice on Strengthening and Improving the Management of Residential Property (《關於加強和改進住宅物業管理工作的通知》), which put forward new requirements for the development of the industry in terms of basic property management services and value-added services, including: improving service quality and advocating property service prices to be formed primarily through market competition; encouraging property service companies to extend their services to various areas such as elderly care, childcare, housekeeping, culture, health, house brokerage, collection and delivery of packages, and to explore the “property service + life service” model; supporting mergers and acquisitions, large-scale brand management; establishing a market environment under the principle of survival of the fittest, etc. In the first half of 2021, the development of the industry continued to maintain a momentum of rapid growth. Property management companies were going public at a faster pace. Since the beginning of the year, over ten new property management companies have applied for an initial public offering on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), maintaining a momentum of rapid growth. Mergers and acquisitions in the industry during the first half of the year exceeded RMB10 billion; and other than horizontal mergers and acquisitions, vertical integration and diversified integration transactions are also increasing. The broad market prospect and strong policy support will provide important strategic opportunities for future development, and the Group is expected to achieve new heights with support from the capital market.

BUSINESS REVIEW

Overview

The Group is a reputable and one of the fastest-growing market players 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 China for more than 19 years. During the two years since its listing in July 2019, the Group has achieved rapid growth in respect of its contracted area and gross floor area (“**GFA**”) under management, having reached approximately 45.7 million sq.m and more than 33.7 million sq.m, respectively, including the GFA in July 2021 from the acquisition of 70% equity interest of Guiyang Xinglong Property Management Co., Ltd. (貴陽興隆物業管理有限公司) (“**Guiyang Xinglong**”), which is among the “2021 Top 100 Property Management Enterprises in China”, according to the China Index Academy. The Group has risen in industry rankings in terms of the GFA under management in 2021, achieving remarkable development in 2021. In April 2021, the Group ranked 38th among the “2021 Top 100 Property Management Enterprises in China”, according to the China Index Academy. In May 2021, the Group was among the “2021 Top 100 Property Service Companies Brand Value in China” and “2021 Top 20 Property Service Companies Brand Value in Northern China” selected by Shanghai E-House Real Estate Research Institute and China Real Estate Evaluation Center.

As of 30 June 2021, the Group recorded revenue of approximately RMB307.9 million, representing an increase of approximately 91.9% compared to the same period in 2020; gross profit of approximately RMB110.5 million, representing an increase of approximately 102.1% compared to the same period in 2020; and gross profit margin of approximately 35.9%, representing a year-on-year increase of approximately 1.8 percentage points. The Group recorded net profit after tax for the six months ended 30 June 2021 of approximately RMB43.6 million, representing an increase of approximately 100.9% compared to approximately RMB21.7 million for the corresponding period in 2020.

As of 30 June 2021, the Group managed 175 property management projects across 33 cities in 16 provinces and municipalities in China with a total contracted GFA of approximately 35.2 million sq.m, representing an increase of approximately 141.1% as compared to approximately 14.6 million sq.m in the same period in 2020, and total GFA under management of approximately 27.1 million sq.m, representing an increase of approximately 131.6% as compared to approximately RMB11.7 million sq.m in the same period in 2020. The Group has achieved significant results in the expansion of its market share, with an increase in its GFA under management from other property developers (including newly acquired entities) to approximately 19.7 million sq.m, representing a growth of approximately 337.8% as compared to approximately 4.5 million sq.m. as of 30 June 2020.

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, authorities and school etc.

In the second half of 2020, the Group has successfully acquired three subsidiaries, including 60% equity interest in Dongguan Baoying Property Management Company Limited ("**Dongguan Baoying**"), 51% equity interest in Guizhou Xingji Property Services Company Limited ("**Guizhou Xingji**") and 65% equity interest in Hohhot Huigu Property Services Company Limited ("**Hohhot Huigu**"), which contributed considerable revenue and profits to the Group for the six months ended 30 June 2021.

As of 30 June 2021, the Group had 175 property management projects under management, with total GFA under management of approximately 27.1 million sq.m. During the first half of the year, the Group successively acquired four major subsidiaries, including 51% equity interest in Zhongshan Zhongzheng Property Management Co., Ltd. ("**Zhongshan Zhongzheng**"), 60% equity interest in Sichuan Wansheng Property Service Co., Ltd. ("**Sichuan Wansheng**"), 51% equity interest in Jiangsu Shenhua Times Property Group Co., Ltd. ("**Jiangsu Shenhua**"), 51% equity interest in Panjin Four Seasons City Property Management Co., Ltd. ("**Panjin Four Seasons**"), so as to expand the Group's market share in existing regions. Through effective management and technological application of the Group, it is believed that these companies acquired by the Group will generate solid and sustained revenue for the Group in the future.

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							
	2021				2020			
	Revenue (RMB'000)	(%)	GFA under management ('000 sq.m.)	(%)	Revenue (RMB'000)	(%)	GFA under management ('000 sq.m.)	(%)
Northern China ⁽¹⁾	79,571	34.1	5,642	20.8	39,640	32.9	3,783	32.4
Northeastern China ⁽²⁾	7,228	3.1	2,839	10.5	6,803	5.6	604	5.2
Southwestern China ⁽³⁾	55,085	23.6	6,433	23.7	30,841	25.6	3,014	25.9
Southern China ⁽⁴⁾	41,845	17.9	4,050	14.9	12,007	9.9	898	7.7
Eastern China ⁽⁵⁾	49,752	21.3	8,144	30.1	31,382	26.0	3,362	28.8
Total	233,481	100.0	27,108	100.0	120,673	100.0	11,661	100.0

Notes:

- (1) “Northern China” includes Beijing, Tianjin, Tangshan, Qinhuangdao and Hohhot
- (2) “Northeastern China” includes Harbin, Shenyang, Panjin, Fushun and Dandong
- (3) “Southwestern China” includes Chongqing, Chengdu, Neijiang, Guiyang, Zunyi, Anshun and Qiannanzhou
- (4) “Southern China” includes Changsha, Yiyang, Yueyang, Dongguan, Zhongshan, Foshan, Jiangmen, Sanya and Lingshui
- (5) “Eastern China” includes Shanghai, Hangzhou, Kunshan, Wuxi, Xuzhou, Taizhou and Huangshan

With the Group’s market expansion becoming more systematic, its business standards of equity cooperation were improved in aspects of project review, due diligence, transaction proposal, cooperation contract to merger and acquisition integration, thereby ensuring the quality of projects and their sustainable and strong profitability, achieving the goal of enhancing service quality with orderly expansion in scale, while effectively preventing related risks.

The Group aggressively expanded into the local market of existing property management projects by taking into account the advantages of having a market presence and foothold across various regions. Leveraging on the Group’s professional team, high-quality services and good reputation in the industry, the Group secured numerous high-quality property management projects such as the projects of Keyilan Pavilion (可逸蘭亭苑) and Yangsha Lake Middle School (洋沙湖中學), further reinforcing the high-quality image associated with the “Hevol Services” brand.

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

	Six months ended 30 June							
	2021				2020			
	Revenue (RMB'000)	(%)	GFA under management ('000 sq.m.)	(%)	Revenue (RMB'000)	(%)	GFA under management ('000 sq.m.)	(%)
Hevol Real Estate Group	110,993	47.5	7,405	27.3	89,170	73.9	7,151	61.3
Other property developers	122,488	52.5	19,703	72.7	31,503	26.1	4,510	38.7
Total	<u>233,481</u>	<u>100.0</u>	<u>27,108</u>	<u>100.0</u>	<u>120,673</u>	<u>100.0</u>	<u>11,661</u>	<u>100.0</u>

Community value-added services

The Group provides community value-added services to property owners and residents. The Group addresses the lifestyle and daily needs of the property owners and residents to enhance their customer experience, satisfaction and loyalty, as well as to create a healthier and more convenient living community. These community value-added services mainly includes home-living services, leasing of car parking space and leasing of common facilities.

As of 30 June 2021, the Group's revenue from community value-added services reached approximately RMB36.0 million, representing an increase of approximately RMB11.8 million, or approximately 48.7% as compared to approximately RMB24.2 million in the same period in 2020. For the six months ended 30 June 2020 and 2021, revenue generated from community value-added services, represented approximately 15.1% and approximately 11.7% of the Group's total revenue for the same periods.

Value-added services to non-property owners

The Group provides site services, sales assistance services, consulting and planning services, property office set-up services, delivery inspection services, repair services, pre-move-in cleaning services and other services to property developers. As of 30 June 2021, the Group's revenue from value-added services to non-property owners reached approximately RMB38.3 million, representing an increase of approximately RMB22.8 million, or approximately 147.3% as compared to approximately RMB15.5 million in the same period in 2020. During the second half of 2020, the Group introduced a number of auxiliary property management services in addition to the existing sales assistance services at the sales offices provided by the property developer, assisting the property developers to enhance the brand value throughout the entire process of property development.

FUTURE OUTLOOK

In the second half of 2021, the Group will continue to adhere to the strategy of “**Six Requirements and Six Feelings** (六化六感)” to realise its overall planning and coordination of business development and team development, which provides a strong impetus to the continuous progress of the Group. “**Six Requirements**” refer to the guiding requirements in the Group’s business development, namely the centralization of investment and expansion areas, the integration of projects under management, seeking quality new projects, using intelligent tools in community management, innovation of value-added services, and staff involvement in quality improvement, and to make overall planning and integrated promotion in equity cooperation, project expansion, smart communities and value-added services. The Group will promote the implementation of the “Six Requirements and Six Feelings” strategy, firmly grasp its major lines of development, focus on key areas such as the Southwest region through industry integration, increase the density of projects under management in the region with more centralized regional management, enrich the formats of expanded projects and expand the scope of services. The Group will firmly grasp the essence of service, open up the industry chain before and after the provision of the Group’s service, and create a full-cycle service model. The Group will promote the construction of smart communities, improve operating efficiency by launching intelligent tools, continuously enrich the types of value-added services, and increase the income from value-added services to better serve a majority of property-owners in all communities of the Group.

In terms of team development, “**Six Feelings**” refers to the feelings of fulfilment and security felt by junior employees the feelings of being recognized and belonging to the organization felt by middle management and the feelings of having a mission and sense of accomplishment felt by the senior management. The implementation of the “Six Feelings” policy will allow junior employees to improve their professional ability, business awareness, and capability of serving property-owners, the middle management to further improve their management thinking, execution ability, and theoretical level, and the senior management to improve in strategic thinking and leadership, ideological and theoretical expertise.

Further expanding the Group’s management scale

In the second half of 2021, the Group will adhere to the strategy of “Six Requirements and Six Feelings (六化六感)” and continue to expand its management scale. On 22 July 2021, the Group entered into a sales and purchase agreement to acquire 70% equity interest in Guiyang Xinglong at a consideration of RMB156.8 million, a well-known property management company in Guiyang with not less than 10.1 million square meters of contracted GFA and 6.4 million square meters of GFA under management, which was ranked 84th in the “2021 Top 100 Property Service Enterprises in China” by China Index Academy in 2021. This equity cooperation was the first time that the Group joined hands with a top 100 property service enterprise to rapidly increase the management scale of the Group in Southwestern China. By combining the existing strength and experience of Guiyang Xinglong in property management in Southwestern China, the cooperation will create synergies with the business of the Group and contribute higher and long-term profits to the Group. On the basis of this cooperation, the Group will carry out in-depth development in the greater Southwestern China and other key regions in order to further expand the Group’s management scale.

Strengthening synergy through integration of merger and acquisition

With the rapid growth of management scale, the management focus will shift to integration and of merger and acquisitions in order to improve the service quality and profitability of the newly acquired enterprises. Based on the sound management system and experience of partner companies, the Group will continuously improve the operation management system and implement such system in the partner companies to create business synergy in various business aspects such as basic service quality improvement, market expansion and brand building, value-added business innovation and revenue generation, cost control and reduction and efficiency enhancement, digital transformation of business system, integration of human resources and team integration, thereby facilitating further rapid development of the Group's business in the second half of 2021.

Promoting future development through technological transformation

The Group attaches great importance to the leading role of technological transformation for future development of the industry and is committed to creating a better life for property owners through technological applications. At present, the Group has established a smart property management platform with its own characteristics, and formed four application terminals for smart community, namely the Web terminal, the APP terminal, the community APP terminal and the small program terminal. The platform has integrated basic services, customer service work orders, quality inspection, financial charges, workstations, access control management, data management and other function modules, and the Group has enabled intelligent internet connectivity of equipment, having completed the arrangement for intelligent parking gates, intelligent lift control and other products, thereby achieving online operation of the Group's whole business process. In addition, through the big data center of the platform, the Group can analyze and summarize the operation data of all projects under management in real time to improve management efficiency, better serve its customers and facilitate the development of the Group through technological transformation in the second half of 2021 and in the near future.

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 RMB147.5 million, or approximately 91.9% from approximately RMB160.4 million to approximately RMB307.9 million for the six months ended 30 June 2021. Such growth was primarily attributable to: (i) an increase in revenue resulted from financial effects of the acquisition of three subsidiaries in the second half of 2020 and four major subsidiaries for the six months ended 30 June 2021, which contributed revenue in aggregate of approximately RMB104.6 million for the six months ended 30 June 2021; (ii) an increase in revenue from community value-added services due to the growth in the number of property management projects; and (iii) an increase in ancillary property management services to Hevol Real Estate Group Limited (“**Hevol Real Estate Group**”).

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					
	2021		2020		Change	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Property management services	233,481	75.8	120,673	75.2	112,808	93.5
Community value-added services	36,060	11.7	24,247	15.1	11,813	48.7
Value-added services to non-property owners	38,318	12.5	15,493	9.7	22,825	147.3
Total	307,859	100.0	160,413	100.0	147,446	91.9

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 RMB112.8 million, or approximately 93.5% from approximately RMB120.7 million for the six months ended 30 June 2020 to approximately RMB233.5 million for the six months ended 30 June 2021. 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 three subsidiaries in the second half of 2020 and four major subsidiaries during the six months ended 30 June 2021, which contributed approximately RMB87.4 million of revenue in aggregate from property management services for six months ended 30 June 2021. The Group's GFA under management increased by approximately 131.6% from approximately 11.7 million sq.m. as at 30 June 2020 to approximately 27.1 million sq.m. as at 30 June 2021 and the number of property management projects increased from 61 to 175, respectively.

Community value-added services

Revenue from community value-added services increased by approximately RMB11.8 million or approximately 48.7% from approximately RMB24.2 million for the six months ended 30 June 2020 to approximately RMB36.0 million for the six months ended 30 June 2021. 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 RMB14.8 million, RMB8.6 million and RMB12.6 million, respectively for the six months ended 30 June 2021. Revenue from home-living services, leasing of car parking space and leasing of common facilities amounted to approximately RMB10.9 million, RMB7.8 million and RMB5.5 million, respectively, for the six months ended 30 June 2020. 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 RMB22.8 million, or approximately 147.3% from approximately RMB15.5 million for the six months ended 30 June 2020 to approximately RMB38.3 million for the six months ended 30 June 2021. The increase in revenue was due to Hevol Real Estate Group having more properties under development which reached the selling stages and required the Group's sales assistance services for the six months ended 30 June 2021 compared to the corresponding period in 2020 and an increase in ancillary property management services to Hevol Real Estate Group.

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 RMB91.6 million or approximately 86.7% from approximately RMB105.7 million for the six months ended 30 June 2020 to approximately RMB197.3 million for the six months ended 30 June 2021. Such increase was mainly attributable to: (i) increase of the Group's sub-contracting costs by approximately RMB28.8 million for the six months ended 30 June 2021 compared to the same period in 2020, due to an increase in its GFA under management resulting from the expansion of property management services, (ii) increase of the Group's staff costs by approximately RMB22.8 million, or approximately 78.1% from approximately RMB29.2 million for the six months ended 30 June 2020 to approximately RMB52.0 million for the six months ended 30 June 2021, due to the increasing number of service employee headcount as a result of business expansion and acquisition of three subsidiaries, in the second half of 2020 and four major subsidiaries, during the current period; and (iii) an increase of utilities and repairs and maintenance expenses of aggregate approximately RMB35.7 million, or approximately 150.6% from approximately RMB23.7 million for the six months ended 30 June 2020 to approximately RMB59.4 million for the six months ended 30 June 2021, resulted from an increase in the number of property management projects. 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					
	2021		2020		Change	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	%
Property management services	79,241	33.9	38,744	32.1	40,497	104.5
Community value-added services	19,534	54.2	13,521	55.8	6,013	44.5
Value-added services to non-property owners	<u>11,756</u>	<u>30.7</u>	<u>2,421</u>	<u>15.6</u>	<u>9,335</u>	<u>385.6</u>
Total	<u>110,531</u>	<u>35.9</u>	<u>54,686</u>	<u>34.1</u>	<u>55,845</u>	<u>102.1</u>

Overall gross profit of the Group increased by approximately RMB55.8 million, or approximately 102.1% from approximately RMB54.7 million for the six months ended 30 June 2020 to approximately RMB110.5 million for the six months ended 30 June 2021. The overall gross profit margin increased from approximately 34.1% for the six months ended 30 June 2020 to approximately 35.9% for the six months ended 30 June 2021. Such increase was primarily attributable to benefits of economic of scale resulted from an increase in the number of property management projects and effective cost control policy imposed by the Group.

Property management services

Gross profit for the Group's property management services increased by approximately RMB40.5 million, or approximately 104.5% from approximately RMB38.7 million for the six months ended 30 June 2020 to approximately RMB79.2 million for the six months ended 30 June 2021. 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 increased to approximately 33.9% in for the six months ended 30 June 2021 from approximately 32.1% for the six months ended 30 June 2020. This was primarily due to the increase in average charging rate of property management services and the Group's successful implementation of cost control measures.

Community value-added services

Gross profit for the Group's community value-added services increased by approximately RMB6.0 million, or approximately 44.5% from approximately RMB13.5 million for the six months ended 30 June 2020 to approximately RMB19.5 million for the six months ended 30 June 2021, due to the (i) inclusion of gross profit of community value-added services of the Group's newly acquired three subsidiaries in the second half of 2020 and four major subsidiaries during the six months ended 30 June 2021, and (ii) an increasing number of property management projects compared to the six months ended 30 June 2020. Gross profit margin remains stable at approximately 54.2% for the six months ended 30 June 2021 compared to 55.8% in the same period in 2020.

Value-added services to non-property owners

Gross profit for the Group's value-added services to non-property owners increased by approximately RMB9.4 million, or approximately 385.6% from approximately RMB2.4 million for the six months ended 30 June 2020 to approximately RMB11.8 million for the six months ended 30 June 2021. Such changes were in line with the number of property development projects under development by Hevol Real Estate Group, which reached the selling phases and required the Group's sales assistance services during the period. In addition, the Group has started to provide ancillary property management services to Hevol Real Estate Group started from the second half of 2020 that contributed considerable gross profit during the period. Gross profit margin increased from approximately 15.6% for the six months ended 30 June 2020 to approximately 30.7% for the period ended 30 June 2021, which was mainly attributable to the operational economic benefits and effective cost control policy imposed by the Group.

Other Income

Other income amounted to approximately RMB4.4 million for the six months ended 30 June 2021, representing an increase of approximately RMB1.3 million, or approximately 41.9% compared to approximately RMB3.1 million for the six months ended 30 June 2020. The increase was mainly due to an increase in interest on deposits at banks and exchange gain.

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 RMB28.9 million, or approximately 112.0% from approximately RMB25.8 million for the six months ended 30 June 2020 to approximately RMB54.7 million for the six months ended 30 June 2021, 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 2021, 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 RMB0.8 million, or approximately 9.9% from approximately RMB8.1 million for the six months ended 30 June 2020 to approximately RMB8.9 million for the six months ended 30 June 2021, 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 RMB14.1 million, or approximately 67.1% from approximately RMB21.0 million for the six months ended 30 June 2020 to approximately RMB35.1 million for the six months ended 30 June 2021, mainly attributable to: (i) the expansion of business scale and an increasing number of property management projects; (ii) the inclusion of profits of newly acquired subsidiaries; and (iii) an increase in ancillary services provided to Hevol Real Estate Group.

Intangible Assets

Intangible assets of the Group mainly consisted of identified property management contracts and customer relationships, which increased from approximately RMB24.9 million as at 31 December 2020 to approximately RMB58.6 million as at 30 June 2021 arising from the acquisition of Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, and Panjin Four Seasons.

Investment Properties

Investment properties of the Group consisted of certain car parking spaces and shop premises, which decreased from approximately RMB29.8 million as at 31 December 2020 to approximately RMB29.3 million as at 30 June 2021, mainly due to depreciation.

Goodwill

Goodwill increased from approximately RMB59.6 million as at 31 December 2020 to approximately RMB150.1 million as at 30 June 2021, due to the acquisitions of Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, and Panjin Four Seasons.

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 RMB104.3 million as at 31 December 2020 to approximately RMB153.5 million as at 30 June 2021, primarily due to the inclusion of trade receivables of newly acquired subsidiaries Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, and Panjin Four Seasons. Other receivables increased from approximately RMB71.0 million as at 31 December 2020 to approximately RMB90.0 million as at 30 June 2021, mainly due to an increase in deposits, prepayment and other receivables of approximately RMB25.2 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, offset by a decrease of other deposits of approximately RMB8.6 million.

Trade and Other Payables

Trade payables of the Group increased from approximately RMB35.9 million as at 31 December 2020 to approximately RMB49.1 million as at 30 June 2021, 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 including Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, and Panjin Four Seasons. 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 RMB142.2 million as at 31 December 2020 to approximately RMB176.6 million as at 30 June 2021 was primarily due to: (i) an increase of accrued charges and other payables of approximately RMB17.7 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 RMB13.8 million, due to the expansion of renovation services to property owners in the Group's communities, and (iii) an increase in accrued staff costs of approximately RMB6.9 million resulted from an increasing number of headcount.

Liquidity, Financial and Capital Resources

As at 30 June 2021, the Group's bank balances and cash increased by approximately RMB74.1 million from approximately RMB291.5 million as at 31 December 2020 to approximately RMB365.6 million as at 30 June 2021, primarily due to the issuance of 80.0 million ordinary shares of the Company on 5 February 2021 at an issue price of HK\$2.0 per share with net proceeds amounting to approximately RMB133.4 million. The Group's financial position remained stable. As at 30 June 2021, the Group's net current assets increased from approximately RMB197.2 million as at 31 December 2020 to approximately RMB286.4 million as at 30 June 2021. As at 30 June 2021, the Group's current ratio was 1.89 times compared to 1.72 times as at 31 December 2020. The Group did not have any borrowings as at 30 June 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 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 2021, the Directors expected that fluctuations of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor the foreign exchange exposure, and take prudent measures to reduce foreign exchange risks.

Employees and Remuneration Policies

The Group had approximately 3,440 employees as at 30 June 2021 compared to 2,154 employees as at 31 December 2020. For the six months ended 30 June 2021, the Group's total staff costs were approximately RMB74.4 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 2021.

CHARGE ON ASSETS

As at 30 June 2021, the Group did not have any charges on its assets (31 December 2020: Nil).

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any material contingent liabilities (31 December 2020: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has adopted Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange 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 2021. 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 2021.

USE OF NET PROCEEDS FROM LISTING

With the shares of the Company listed on the Stock Exchange on 12 July 2019, the net proceeds from the Global Offering were approximately HK\$75.8 million (equivalent to approximately RMB66.6 million), which will be utilised for the purposes as set out in the Company’s prospectus dated 27 June 2019 (the “**Prospectus**”). As at 30 June 2021, approximately RMB46.3 million, or approximately 69.5%, 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 date on 12 July 2019 up to the date of this announcement:

Net proceeds (in RMB million)

Item	Percentage	Available	Utilised	Unutilised	Expected time of use of unutilised proceeds
1 Acquisition of other property management companies	51.8%	34.5	34.5	–	On or before 31 December 2022
2 Bidding for new property management projects	7.7%	5.1	2.2	2.9	On or before 31 December 2022
3 Investment in advanced technologies and smart communities	23.1%	15.4	5.2	10.2	On or before 31 December 2022
4 Expansion of value added services business segment	14.4%	9.6	2.4	7.2	On or before 31 December 2022
5 Working capital and general corporate purpose	3.0%	2.0	2.0	–	On or before 31 December 2022
	<u>100.0%</u>	<u>66.6</u>	<u>46.3</u>	<u>20.3</u>	

Proceeds from the placing of shares

On 24 June 2020, the Company issued 80,000,000 ordinary shares (the “**First Share Placing**”) at an issue price of HK\$1.28 per share. As a result, the Company received net proceeds of approximately HK\$100,864,000 (equivalent to RMB91,930,000) after deduction of the placing commission and other related expenses. Such proceeds will be used for potential future mergers and acquisitions and general working capital. As at 30 June 2021, all net proceeds from the First Share Placing have been utilised.

On 5 February 2021, the Company issued 80,000,000 ordinary shares (the “**Second Share Placing**”) at an issue price of HK\$2.00 per share. As a result, the Company received net proceeds of approximately HK\$157,600,000 (equivalent to RMB131,404,000) after deduction of the placing commission and other related expenses. Such proceeds will be used for potential future mergers and acquisitions and general working capital. As at 30 June 2021, approximately RMB54,500,000, or approximately 41.5%, of the net proceeds from the Second Share Placing have been utilised.

The Company will continue to seek suitable targets for mergers and acquisitions using a prudent approach to utilise the net proceeds effectively and efficiently for the long term benefit and development of the Group.

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

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

AUDIT COMMITTEE

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

The audit committee of the Company currently comprises three independent non-executive Directors, namely Dr. Chen Lei, Mr. Fan Chi Chiu and Mr. Qian Hongji. The audit committee had reviewed the unaudited interim results for the six months ended 30 June 2021 and has discussed, among other things, the matters of risk management and internal control with the management.

PUBLICATION OF INTERIM RESULTS AND 2021 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 2021 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, 27 August 2021

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.