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Kangqiao Service Group Limited

康橋悅生活集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2205)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2021

FINANCIAL HIGHLIGHTS FOR THE YEAR

1. Revenue for the Year was approximately RMB783.6 million, representing an increase of 36.1% compared with 2020.
2. Revenue by business lines for the Year was as follows:
 - (1) revenue from property management services was approximately RMB350.8 million, accounting for 44.8% of the total revenue, representing an increase of 37.6% compared with 2020;
 - (2) revenue from value-added services to non-property owners was approximately RMB311.9 million, accounting for 39.8% of the total revenue, representing an increase of 32.5% compared with 2020; and
 - (3) revenue from community value-added services was approximately RMB120.9 million, accounting for 15.4% of the total revenue, representing an increase of 41.8% compared with 2020.

3. Gross profit for the Year was approximately RMB203.9 million, representing an increase of approximately 15.5% compared with 2020. Gross profit margin was 26.0%, representing a decrease of 4.7% as compared to that of 30.7% for 2020.
4. Profit for the Year was approximately RMB88.6 million, representing a decrease of approximately 3.5% as compared to that of RMB91.8 million for 2020. Excluding the listing expenses of approximately RMB14.0 million, adjusted profit for the Year was approximately RMB102.6 million, representing an increase of approximately 4.5% as compared to that of RMB98.2 million for 2020. Profit for the Year attributable to the owners of the Company was approximately RMB83.9 million, representing a decrease of approximately 5.1% as compared to that of RMB88.4 million for 2020. Excluding the listing expenses of approximately RMB14.0 million, adjusted profit attributable to owners of the Company was approximately RMB97.9 million, representing an increase of 3.3% compared to that of RMB94.8 million in 2020. Adjusted profit for the Year (attributable to owners of the Company) is defined as profit for the Year (attributable to owners of the Company) excluding non-recurring listing expenses. As listing expenses are non-recurring in nature and not related to the performance of the Group's operation, the Directors consider that the presentation of the Group's adjusted profit for the Year (attributable to owners of the Company) by eliminating the impact of listing expenses can better reflect the operational performance during the respective years. Furthermore, the Group's management also uses the adjusted profit for the Year (attributable to owners of the Company) to assess the Group's operating performance and formulate business plans. The Group believes that the adjusted profit for the Year (attributable to owners of the Company) provides useful information to the investors about its core business operations, which they can use to evaluate the Group's operating results and understand its consolidated results of operations in the same manner as the management.
5. The contracted GFA in respect of property management services for the Year was approximately 53.1 million sq.m., representing a growth of 36.1% compared with 2020, among which approximately 41.1 million sq.m. or 77.3% were from third party property developers. The GFA under management was approximately 23.5 million sq.m., representing a growth of 49.6% compared with 2020, among which approximately 17.3 million sq.m. or 73.4% were from third party property developers. The GFA under management of non-residential properties was approximately 2.0 million sq.m., representing a growth of 106.9% compared with 2020. Approximately 97.0% of non-residential properties were from third party property developers.
6. The Board has proposed the payment of a final dividend of RMB0.03 per share for the Year.

Reference is made to the announcement of Kangqiao Service Group Limited (the “**Company**” or “**Kangqiao Service**”, together with its subsidiaries, the “**Group**”) dated March 31, 2022 in relation to the unaudited annual results of the Group (the “**2021 Unaudited Results Announcement**”) for the year ended December 31, 2021 (the “**Year**”).

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the audited consolidated results of the Group for the Year with comparative figures for the year ended December 31, 2020. There are no significant changes in the audited annual results in this announcement as compared to the unaudited annual results contained in the 2021 Unaudited Results Announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021

(All amounts in RMB thousands unless otherwise stated)

	<i>Notes</i>	Year ended December 31,	
		2021	2020
		RMB'000	RMB'000
Revenue	4	783,567	575,585
Cost of sales	5	(579,715)	(399,041)
Gross profit		203,852	176,544
Administrative expenses	5	(61,705)	(39,753)
Selling and marketing expenses	5	(15,339)	(10,778)
Net impairment losses on financial assets		(6,542)	(2,701)
Other income		8,494	21,344
Other (losses)/gains — net		(1,924)	1
Operating profit		126,836	144,657
Finance income		1,472	414
Finance costs		(8,395)	(21,113)
Finance costs — net		(6,923)	(20,699)
Share of profit/(loss) of investments accounted for using the equity method		244	(57)
Profit before income tax		120,157	123,901
Income tax expenses	6	(31,598)	(32,117)
Profit for the year		88,559	91,784

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(CONTINUED)**

For the year ended December 31, 2021

(All amounts in RMB thousands unless otherwise stated)

	<i>Note</i>	Year ended December 31,	
		2021	2020
		RMB'000	RMB'000
Profit attributable to:			
— Owners of the Company		83,885	88,383
— Non-controlling interests		4,674	3,401
		<u>88,559</u>	<u>91,784</u>
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
— Exchange difference on translation of foreign operations		<u>(2,606)</u>	<u>—</u>
Total comprehensive income for the year		<u>85,953</u>	<u>91,784</u>
Total comprehensive income attributable to:			
— Owners of the Company		81,279	88,383
— Non-controlling interests		4,674	3,401
		<u>85,953</u>	<u>91,784</u>
Earnings per share			
— Basic and diluted	7	<u>0.14</u>	<u>0.17</u>

CONSOLIDATED BALANCE SHEET

As at December 31, 2021

(All amounts in RMB thousands unless otherwise stated)

	<i>Notes</i>	As at December 31,	
		2021	2020
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment	8	10,207	9,068
Right-of-use assets		3,130	3,377
Investment properties		3,893	5,705
Intangible assets	9	56,118	20,862
Deferred income tax assets		9,988	6,544
Prepayments	10	65,629	–
Restricted cash		1,325	1,324
Investments accounted for using the equity method		932	198
		<u>151,222</u>	<u>47,078</u>
Current assets			
Inventories		1,075	–
Trade and other receivables and prepayments	10	420,774	719,473
Financial assets at fair value through profit or loss		21,018	–
Cash and cash equivalents		540,833	134,758
		<u>983,700</u>	<u>854,231</u>
Total assets		<u><u>1,134,922</u></u>	<u><u>901,309</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	11	5,831	–
Other reserves	12	545,902	7,982
Retained earnings		116,156	137,982
		<u>667,889</u>	<u>145,964</u>
Non-controlling interests		33,508	21,052
Total equity		<u><u>701,397</u></u>	<u><u>167,016</u></u>

CONSOLIDATED BALANCE SHEET (CONTINUED)*As at December 31, 2021**(All amounts in RMB thousands unless otherwise stated)*

	<i>Notes</i>	As at December 31,	
		2021	2020
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Bank borrowings		–	221,119
Lease liabilities		4,783	7,305
Deferred income tax liabilities		7,028	1,756
Other payables	<i>13</i>	5,450	–
Contract liabilities		8,779	–
		<hr/>	<hr/>
		26,040	230,180
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>13</i>	243,292	225,506
Contract liabilities		138,024	108,316
Current income tax liabilities		21,167	38,546
Bank borrowings		–	125,865
Lease liabilities		5,002	5,880
		<hr/>	<hr/>
		407,485	504,113
		<hr/>	<hr/>
Total liabilities		433,525	734,293
		<hr/>	<hr/>
Total equity and liabilities		1,134,922	901,309
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on October 8, 2020 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. The address of its registered office is Floor 4, Willow House, Cricket Square, Grand Cayman, KY1-9010, Cayman Islands.

The Company has been listed on the Main Board of The Stock Exchange of Hong Kong Limited since July 16, 2021 by way of its initial public offering.

The Company is an investment holding company. The Group is principally engaged in provision of property management services and related value-added services in the People's Republic of China (the "PRC"). The ultimate controlling shareholder of the Group is Mr. Song Gewei ("**Mr. Song**", the "**Controlling Shareholder**").

These consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company (the "**Board**") on April 29, 2022.

The outbreak of the 2019 Novel Coronavirus (the "**COVID-19**") had brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the industry of property management. Since the outbreak of COVID-19, the Group kept continuous attention on the situation of the COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. As at the date that the consolidated financial information is authorised for issue, COVID-19 doesn't have any material adverse impact on the financial position and operating result of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of the consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(a) *Compliance with HKFRS and HKCO*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(b) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for certain financial assets and investment properties measured at fair value.

(c) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing January 1, 2021. The adoption of these standards and amendments does not have significant impact on the consolidated financial statements of the Group.

Amendments to HKFRS 9, Hong Kong Accounting Standards (HKAS) 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

(d) *New and amendments to existing standards that have been issued but are not effective for the financial year beginning on January 1, 2021 and have not been early adopted by the Group are as follows:*

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Update reference to the conceptual framework	January 1, 2022
Amendments to HKAS 16	Property, plant and equipment: proceeds before intended use	January 1, 2022
Amendments to HKAS 37	Onerous contracts — costs of fulfilling a contract	January 1, 2022
Annual Improvements	Annual improvements to HKFRS standards 2018-2020 cycle	January 1, 2022
Revised Accounting Guideline 5	Merger accounting for common control combination	January 1, 2022
HKFRS 17	Insurance Contracts	January 1, 2023
Amendments to HKAS 1	Classification of liabilities as current or non-current	January 1, 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023
Amendments to HKAS 8	Definition of accounting estimates	January 1, 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	January 1, 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint ventures	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations, and not expected to have a material impact on the Group in the current or future reporting period.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in provision of property management services and related value-added services in the PRC. Management reviews the operating results of the business as a single reporting segment as the nature of services, the type of customers for services, the method used to provide their services and the nature of regulatory environment is same in different regions.

During the year ended December 31, 2021, all the segments are domiciled in the PRC and all the revenue was derived in the PRC (2020: same).

As at December 31, 2021, substantially all assets of the Group were located in the PRC (December 31, 2020: same).

4 REVENUE

Revenue mainly comprises of proceeds from property management services and related value-added services. An analysis of the Group’s revenue by category is as follows:

	Year ended December 31,	
	2021	2020
	RMB’000	RMB’000
Property management services	350,767	254,956
Value-added services to non-property owners	311,935	235,408
Community value-added services	120,865	85,221
	<u>783,567</u>	<u>575,585</u>
Timing of revenue recognition		
— Over time	524,283	408,549
— At a point in time	259,284	167,036
	<u>783,567</u>	<u>575,585</u>

For the year ended December 31, 2021, revenue from entities controlled by Mr. Song contributed 32.7% (2020: 38.3%) of the Group’s revenue. Other than entities controlled by Mr. Song, none of the Group’s customers contributed 10% or more of the Group’s revenue during the year ended December 31, 2021 (2020: same).

5 EXPENSES BY NATURE

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Employee benefit expenses and labour costs	191,931	271,588
Sales agency service costs	87,670	19,544
Security service costs	98,208	25,210
Greening and cleaning expenses	90,824	47,404
Maintenance and customer service costs	56,883	16,146
Utilities	24,524	19,252
Listing expenses	14,019	6,379
Cost of goods sold	24,148	–
Office expenses	13,272	10,037
Travelling and entertainment expenses	7,352	5,499
Auditors' remuneration	3,019	38
Depreciation of property and equipment (Note 8)	2,242	1,760
Depreciation of right-of-use assets	1,104	1,058
Depreciation of investment properties	1,812	1,589
Amortisation of intangible assets (Note 9)	1,594	1,010
Rental expenses related to short term leases	656	3,093
Others	37,501	19,965
	<u>656,759</u>	<u>449,572</u>

6 INCOME TAX EXPENSES

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax	35,295	35,286
Deferred income tax		
— PRC corporate income tax	(3,697)	(3,169)
	<u>31,598</u>	<u>32,117</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's subsidiaries in the British Virgin Islands ("BVI") were incorporated under the International Business Companies Act of the BVI and accordingly, are exempted from BVI income tax.

The Group's subsidiaries incorporated in Hong Kong did not have assessable profit in Hong Kong during year ended December 31, 2021 (2020: same).

Income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate is 25%. Under the relevant regulations of the corporate income tax Law, certain subsidiaries of the Group qualified as small enterprises earning low profits in the PRC are subject to a reduced income tax rate of 20%. Income tax expenses is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

Pursuant to the Detailed Implementation Regulations for Implementation of the Corporate Income Tax Law issued on December 6, 2007, dividends distributed from the profits generated by the PRC companies after January 1, 2008 to their foreign investors shall be subject to this withholding income tax of 10%, a lower 5% withholding income tax rate may be applied when the immediate holding companies of the subsidiaries in Mainland China are incorporated in Hong Kong and fulfil the requirements to the tax treaty arrangements between Mainland China and Hong Kong. The Group has not accrued any withholding income tax for these undistributed earnings of its subsidiaries in Mainland China as the Group is able to control the timing of distributions from subsidiaries and is not expected to distribute these profits out of Mainland China in the foreseeable future.

7 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year ended December 31, 2021. In determining the weighted average number of ordinary shares in issue, the 100 shares issued upon incorporation of the Company at October 8, 2020, the 100 shares issued during the reorganization (Note 11(a)) and the capitalization issue of 524,999,800 shares (Note 11(b)) were retrospectively adjusted as in issue since January 1, 2020.

The Company did not have any potential ordinary shares outstanding during the year ended December 31, 2021. Diluted earnings per share was equal to basic earnings per share.

	Year ended December 31,	
	2021	2020
Profit attributable to owners of the Company (<i>RMB'000</i>)	83,885	88,383
Weighted average number of ordinary shares in issue (<i>in thousands</i>)	606,027	525,000
Basic and diluted earnings per share attributable to the owners of the Company during the year (<i>expressed in RMB per share</i>)	<u>0.14</u>	<u>0.17</u>

8 PROPERTY AND EQUIPMENT

	Vehicles RMB'000	Furniture and fixtures RMB'000	Leasehold improvements RMB'000	Office premises RMB'000	Total RMB'000
Year ended December 31, 2020					
Opening net book amount	963	2,757	154	4,094	7,968
Additions	9	1,620	150	–	1,779
Acquisition of subsidiaries	4	307	771	–	1,082
Disposals	–	(1)	–	–	(1)
Depreciation charge	(275)	(1,261)	(130)	(94)	(1,760)
Closing net book amount	701	3,422	945	4,000	9,068
As at December 31, 2020					
Cost	1,883	8,388	1,153	4,094	15,518
Accumulated depreciation	(1,182)	(4,966)	(208)	(94)	(6,450)
Net book amount	701	3,422	945	4,000	9,068
Year ended December 31, 2021					
Opening net book amount	701	3,422	945	4,000	9,068
Additions	48	2,918	284	–	3,250
Acquisition of subsidiaries (Note 15)	14	113	17	–	144
Disposals	–	(13)	–	–	(13)
Depreciation charge	(169)	(1,621)	(358)	(94)	(2,242)
Closing net book amount	594	4,819	888	3,906	10,207
As at December 31, 2021					
Cost	1,945	11,406	1,454	4,094	18,899
Accumulated depreciation	(1,351)	(6,587)	(566)	(188)	(8,692)
Net book amount	594	4,819	888	3,906	10,207

No property and equipment were pledged as security for bank borrowings as at December 31, 2021.

As at December 31, 2020, the office premises with net book value of RMB4,000,000 were pledged as collateral for the Group's bank borrowings.

9 INTANGIBLE ASSETS

	Computer software <i>RMB'000</i>	Customer relationships and backlog <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended December 31, 2020				
Opening net book amount	1,173	6,184	9,967	17,324
Additions	696	–	–	696
Acquisition of subsidiaries	–	–	3,852	3,852
Amortisation	(419)	(591)	–	(1,010)
Closing net book amount	<u>1,450</u>	<u>5,593</u>	<u>13,819</u>	<u>20,862</u>
As at December 31, 2020				
Cost	2,742	6,200	13,819	22,761
Accumulated amortisation	(1,292)	(607)	–	(1,899)
Net book amount	<u>1,450</u>	<u>5,593</u>	<u>13,819</u>	<u>20,862</u>
Year ended December 31, 2021				
Opening net book amount	1,450	5,593	13,819	20,862
Additions	215	–	–	215
Acquisition of subsidiaries (Note 15)	36	22,100	14,499	36,635
Amortisation	(635)	(959)	–	(1,594)
Closing net book amount	<u>1,066</u>	<u>26,734</u>	<u>28,318</u>	<u>56,118</u>
As at December 31, 2021				
Cost	2,993	28,300	28,318	59,611
Accumulated amortisation	(1,927)	(1,566)	–	(3,493)
Net book amount	<u>1,066</u>	<u>26,734</u>	<u>28,318</u>	<u>56,118</u>

10 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Trade receivables (<i>Note (a)</i>)		
— Related parties	189,168	258,157
— Third parties	131,857	95,547
	<u>321,025</u>	<u>353,704</u>
Less: allowance for impairment of trade receivables	<u>(14,033)</u>	<u>(6,945)</u>
	<u>306,992</u>	<u>346,759</u>
Other receivables		
— Loans to related parties	—	301,626
— Amounts due from related parties (<i>Note(b)</i>)	74,837	47,439
— Loan to a third party	—	7,200
— Cash advances to non-controlling interests	230	244
— Interest receivables from related parties	—	8,380
— Interest receivables from third parties	—	422
— Deposits	3,565	1,440
— Cash advances to a third party	20,926	—
— Others	15,219	6,334
	<u>114,777</u>	<u>373,085</u>
Less: allowance for impairment of other receivables	<u>(2,040)</u>	<u>(2,586)</u>
	<u>112,737</u>	<u>370,499</u>
Prepayments		
— Prepayments to third parties	66,674	89
— Prepayment for listing expenses	—	2,126
	<u>66,674</u>	<u>2,215</u>
Total	<u>486,403</u>	<u>719,473</u>
Less: non-current portion of prepayments	<u>(65,629)</u>	<u>—</u>
Current portion of trade and other receivables and prepayments	<u>420,774</u>	<u>719,473</u>

- (a) As at December 31, 2020 and 2021, the ageing analysis of the trade receivables based on recognition date were as follows:

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
0-180 days	185,652	288,731
181-365 days	85,039	19,195
1 to 2 years	34,902	32,294
2 to 3 years	9,099	7,442
3 to 4 years	3,648	4,713
Over 4 years	2,685	1,329
	321,025	353,704

- (b) Other receivables with related parties as at December 31, 2021 were unsecured and interest-free.

During the year ended December 31, 2021, the Group and certain subsidiaries of Beijing Tongdao Shenghe Investment Co., Ltd. (“**Beijing Tongdao**”) entered into several sales agency services agreements (the “**Underlying Agreements**”), pursuant to which, the Group paid refundable deposits (the “**Refundable Deposits**”) in an aggregate amount of RMB85,836,000, out of which RMB62,910,000 remained outstanding as other receivables as at December 31, 2021. For the parking spaces sold by the Group, the amount of the Refundable Deposits shall be set-off by the total sales reserve price for such parking spaces received by the Group; and for the parking spaces failed to be sold by the Group, the Refundable Deposits shall be refunded in full upon the expiration of the Sales Agency Services Framework Agreement on December 31, 2023, or on the date(s) as agreed by parties under the relevant Underlying Agreements (whichever is earlier). As at the date of this announcement, the Refundable Deposits were fully refunded.

Except for the Refundable Deposits, the remaining balances of other receivables were repayable on demand.

11 SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares HK\$	Equivalent nominal value of ordinary shares RMB'000
Authorised:			
As at December 31, 2020	38,000,000	380,000	320
Increase of authorised shares (<i>Note (b)</i>)	<u>962,000,000</u>	<u>9,620,000</u>	<u>8,050</u>
As at December 31, 2021	<u><u>1,000,000,000</u></u>	<u><u>10,000,000</u></u>	<u><u>8,370</u></u>
Issued:			
As at December 31, 2020	100	1	–
Issue of shares in connection with the reorganization (<i>Note (a)</i>)	100	1	–
Issue of shares in connection with the capitalisation issue (<i>Note (b)</i>)	524,999,800	5,249,998	4,373
Issue of shares in connection with the Company's listing (<i>Note (c)</i>)	<u>175,000,000</u>	<u>1,750,000</u>	<u>1,458</u>
As at December 31, 2021	<u><u>700,000,000</u></u>	<u><u>7,000,000</u></u>	<u><u>5,831</u></u>

- (a) On January 28, 2021, New Hefeng Holdings Limited (“**New Hefeng**”) transferred the entire shareholding in Friend Holdings Limited (“**Friend Holdings**”) it held to the Company in exchange for the allotment and issue of 10 shares in the Company to New Hefeng. Friend Holdings then became a direct wholly-owned subsidiary of the Company. On the same date, 90 shares were allotted and issued to Kangqiaoyue Shenghuo Holdings Limited (“**Kangqiaoyue Shenghuo BVI**”) at a price of HK\$0.01 per share. Upon completion of such share transfer and allotment, the Company was owned as to 95% and 5% by Kangqiaoyue Shenghuo BVI and New Hefeng, respectively.
- (b) On June 17, 2021, the authorised share capital of the Company increased to 1,000,000,000 shares with par value of HK\$0.01 each.

Pursuant to the shareholder's written resolution on June 17, 2021, conditional upon the share premium account of the Company being credited as a result of the global offering, the Company capitalised an amount of HK\$5,249,998 (equivalent to approximately RMB4,373,000) standing as credit of its share premium account in paying up in full of 524,999,800 shares at par which were allotted and issued to shareholders of the Company at close of business on July 15, 2021 in proportion to their respective shareholdings.

- (c) On July 16, 2021, the Company issued a total of 175,000,000 ordinary shares at a price of HK\$3.68 per share. The net proceeds of HK\$628,940,000 (equivalent to RMB520,046,000) were credited to share capital and premium after deduction of the capitalised listing expenses.

12 OTHER RESERVES

	Capital reserves <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserve <i>RMB'000</i> <i>(Note (a))</i>	Foreign currency translation <i>RMB'000</i>	Total <i>RMB'000</i>
As at January 1, 2020	5,000	–	2,515	–	7,515
Appropriation of statutory reserves	–	–	467	–	467
As at December 31, 2020	<u>5,000</u>	<u>–</u>	<u>2,982</u>	<u>–</u>	<u>7,982</u>
As at January 1, 2021	5,000	–	2,982	–	7,982
Issue of shares in connection with the capitalisation issue <i>(Note 11 (b))</i>	–	(4,373)	–	–	(4,373)
Issue of shares in connection with the Company's listing <i>(Note 11 (c))</i>	–	518,588	–	–	518,588
Currency translation differences	–	–	–	(2,606)	(2,606)
Appropriation of statutory reserves <i>(Note (a))</i>	–	–	5,711	–	5,711
Capital injection from shareholders of the Company <i>(Note (b)(i))</i>	25,600	–	–	–	25,600
Deemed distribution to the then shareholder of the Group arising from the reorganisation <i>(Note (b)(ii))</i>	(5,000)	–	–	–	(5,000)
As at December 31, 2021	<u>25,600</u>	<u>514,215</u>	<u>8,693</u>	<u>(2,606)</u>	<u>545,902</u>

(a) Statutory reserve

In accordance with relevant rules and regulations in the PRC, the PRC group entities are required to appropriate no less than 10% of their profit after income tax calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset losses carried forward from previous years or to increase the capital of the respective PRC Group entities.

(b) **Other reserve**

Prior to the reorganisation accomplished in January 2021, the Group was principally operated by Kangqiao Yueshenghuo Service Group Co., Ltd. (“**Kangqiao Yueshenghuo**”) and its subsidiaries, and Kangqiao Technology Service Group Co., Ltd. and its subsidiary, which were incorporated in the PRC and ultimately controlled by Mr. Song. The following steps were undertaken in 2021 in relation to the reorganisation:

(i) *Capital injection into Kangqiao Yueshenghuo by an independent third party and Mr. Song*

In January 2021, the Group received capital injection of RMB25,600,000 from an independent third party, Keanda Holdings Limited (“**Keanda Holdings**”) and Mr. Song. On January 4, 2021, Keanda Holdings acquired 5% of the equity interests in Kangqiao Yueshenghuo from Henan Boyuan Quanjing Enterprise Consulting Co., Ltd. (“**Henan Boyuan**”), the then shareholder of Kangqiao Yueshenghuo and a related party controlled by Mr. Song, via capital injection.

(ii) *Transfer of 95% equity interest in Kangqiao Yueshenghuo to the Group*

On January 27, 2021, Henan Kangqiao Yueshenghuo Business Service Co., Ltd (“**Henan Kangqiao Yueshenghuo**”) acquired 95% of the equity interests in Kangqiao Yueshenghuo from Henan Boyuan at a cash consideration of RMB5,000,000. Kangqiao Yueshenghuo then was owned by Henan Kangqiao Yueshenghuo and Keanda Holdings as to 95% and 5%, respectively.

13 TRADE AND OTHER PAYABLES

	As at December 31,	
	2021	2020
	RMB'000	RMB'000
Trade payables (<i>Note (a)</i>)		
— Related parties	627	25
— Third parties	66,113	51,464
	66,740	51,489
Other payables		
— Amounts due to related parties	21,890	20,287
— Payables for acquisition of a subsidiary	4,201	—
— Deposits from third parties	42,796	33,232
— Accrued payroll and workforce payables	40,974	56,704
— Other tax payables	10,239	20,453
— Others	61,902	43,341
	182,002	174,017
Total	248,742	225,506
Less: non-current portion of other payables	(5,450)	—
Current portion of trade and other payables	243,292	225,506

- (a) As at December 31, 2021 and 2020, ageing analysis of the trade payables (including amounts due to related parties which were trade in nature) based on invoice date were as follows:

	As at December 31,	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 1 year	65,594	45,225
1 to 2 years	929	3,014
2 to 3 years	82	2,194
Over 3 years	135	1,056
	<u>66,740</u>	<u>51,489</u>

14 DIVIDENDS

A final dividend in respect of year ended December 31, 2021 of RMB0.03 per ordinary share has been proposed by the Board of the Company and are subject to the approval of the shareholders at the Annual General Meeting to be held on June 8, 2022. The final dividend will be distributed out of the Company's share premium. These consolidated financial statements have not reflected these dividends payable.

15 BUSINESS COMBINATION

On October 19, 2021, the Company completed its acquisition of 51% equity interests of Henan Dingfeng Property Service Co., Ltd. ("**Dingfeng Property**") which engaged in provision of property management services in the PRC at a cash consideration of RMB25,500,000 from a third party.

The acquired business of Dingfeng Property has contributed to total revenue of RMB4,467,000 and net profit of RMB512,000 of the Group for the year ended December 31, 2021 from the acquisition date to December 31, 2021.

Had Dingfeng Property been consolidated from January 1, 2021, the consolidated statement of comprehensive income for the year ended December 31, 2021 would show pro-forma revenue of RMB799,205,000 and net profit of RMB91,069,000.

Details of the purchase consideration, the net assets acquired and goodwill were as follows:

	As at October 19, 2021 RMB'000
Total purchase considerations	
— Cash paid	20,400
— Payable	5,100
— Effect of cash flow discount	(899)
	<u>24,601</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	13,107
Property and equipment (<i>Note 8</i>)	144
Intangible assets (<i>Note 9</i>)	22,136
Trade and other receivables	8,208
Deferred income tax liabilities	(5,525)
Trade and other payables	(11,949)
Current income tax liabilities	(391)
Contract liabilities	(5,923)
	<u>19,807</u>
Total identifiable net assets	19,807
Less: Non-controlling interests	(9,705)
	<u>10,102</u>
Net assets acquired	<u>10,102</u>
Goodwill (<i>Note 9</i>)	<u>14,499</u>

Net cash outflow arising on acquisition of Dingfeng Property during the year ended December 31, 2021:

	<i>RMB'000</i>
Cash consideration paid	(20,400)
Cash and cash equivalents acquired at the acquisition date	13,107
	<u>(7,293)</u>

16 SUBSEQUENT EVENT

As disclosed in the Company's announcement dated April 21, 2022, after the reporting period, the Group and certain subsidiaries of Beijing Tongdao further entered into several sales agency services agreements, pursuant to which, the Group further paid Refundable Deposits of RMB134,969,000. As at the date of this announcement, the Refundable Deposits were fully refunded.

As at April 21, 2022, the Board approved and announced a Supplemental Sales Agency Services Framework Agreement, entered into by the Company and Beijing Tongdao. The Company proposes to put forward an ordinary resolution at the forthcoming annual general meeting of the Company to be held for the independent shareholders to consider and, if thought fit, approve the entering into of the Supplemental Sales Agency Services Framework Agreement, and the transactions contemplated thereunder and the ratification of the payment of the Refundable Deposits.

CHAIRMAN’S STATEMENT

A new chapter begins as time passes by. The Year of Renyin has come with vitality and hope. Time is the best witness and a faithful recorder. 2021 was an extraordinary year. We successfully listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), building an international platform and opening up a broader space for the Company’s future business development.

During the Year, we built a defense line for our homeland and delivered warmth and energy to perform our liability and responsibility.

- (1) Zhengzhou, Henan suffered from the “7.20” heavy rainstorm disaster, to which the Party Central Committee and the State Council of the PRC attached great importance. General Secretary Xi Jinping emphasized the priority to ensure the safety of people’s lives and property, as well as to pay close attention to the details of various flood control and disaster relief measures. Reconstruction was actively conducted after the State Flood Control and Drought Relief Headquarters, the National Committee for Disaster Reduction, the Provincial Party Committee and Provincial Government of Henan, the relevant ministries and commissions of the state, the People’s Liberation Army and the Armed Police Force, the firefighting rescue team and other relevant parties as well as the cadres and the masses made full effort in efficiently completing the flood control, emergency rescue and disaster relief in Zhengzhou. In this challenging disaster relief process, all Kangqiao Service’s employees united and held hands to efficiently integrate into the community disaster relief system under the government, during which we closely focused on the life and health needs of owners and exerted all efforts to provide care until the end, and won appreciation in the society.
- (2) The pandemic of 2019 novel coronavirus disease (“**COVID-19**”) which caused harm globally repeatedly spread to Zhengzhou, Henan and certain surrounding key cities. The PRC government institutions once again fought back with strong service capabilities, effectively controlled its spread, and social operations gradually resumed in an orderly manner. Kangqiao Service’s effort in disaster relief and pandemic combating won honorary titles including “2021 Advanced Enterprise in Property Service Industry (2021年度物業服務行業先進企業)” and “2021 Leading Enterprise with Quality Property Service in Henan (2021年度河南品質物業服務領先企業)” by Henan Property Management Association, “2021 Advanced Unit in Fighting the Epidemic (2021年度抗擊疫情先進單位)” and “2021 Advanced Unit in Flood Control and Emergency Rescue (2021年度抗洪搶險先進單位)” by Zhengzhou Property Management Association.

During the Year, we sharpened our swords and strived through plights to provide happiness under the “sudden big mission”, we have forged ahead under pressure, and compose a chapter of happiness. Whether it is on the national level or community level (Kangqiao Service), Chinese people have no fear in facing crisis. Crisis is a powerful driving force to test the stability of a country’s system and the tenacity of a company’s operation. In 2021, the gross domestic product of the PRC amounted to approximately RMB114.4 trillion, representing an increase of 8.1% as compared with the previous year. The economy continued to recover steadily, and the PRC has maintained a leading position in the world in respect of economic development and epidemic prevention and control, with main indicators achieving expected goals. Under the stable economy, the development of the property management industry entered a new stage and the competition became increasingly fierce. In the first year of listing, Kangqiao Service is facing new situations, new challenges and new tasks. Upholding its aspiration, working hard and persevering, Kangqiao Service’s annual revenue exceeded our target, reaching approximately RMB783.6 million. Continuing to improve service capability is the constant pursuit of Kangqiao Service. In 2021, we won the trust and support of owners. Our business expansion has achieved excellent results. The cumulative new contracted construction area for the Year was approximately 14.1 million square meters, of which the area from independent third parties was approximately 13.0 million square meters, accounting for approximately 92.0%. As at December 31, 2021, the total contracted construction area was approximately 53.1 million square meters, of which the area from independent third parties was approximately 41.1 million square meters, accounting for approximately 77.3%. The total construction area under management was approximately 23.5 million square meters, of which the area from independent third parties was approximately 17.3 million square meters, accounting for approximately 73.4% of the total construction area under management.

During the Year, we deeply cultivated the Henan market, strategically invested in the core economic zone of Shaanxi and developed urban services.

- (1) We invested in 6 associates and subsidiaries with state-owned holding groups, city investment enterprises and potential real estate development companies (one of which has strategically cooperated with Zhengzhou Rail Transit Real Estate Co., Ltd. to establish a joint venture company Henan Guidao Yueshenghuo Life Property Service Co., Ltd.* (河南軌道悦生活物業管理有限公司) to develop urban services continuously in the future);

- (2) we established strategic cooperation with Henan Just Industry Group and acquired Henan Dingfeng Property Service Co., Ltd.* (河南鼎峰物業服務有限公司) (“**Dingfeng Property**”), whose services covered office buildings, residences, primary and secondary schools and other properties. Such cooperation not only expanded the market share in Henan (especially in key cities such as Zhengzhou and Pingdingshan), but also enriched the Group’s services for non-residential business. In addition, due to the strategic cooperation between the two companies, the low-value, high-frequency, rigid-demanded dairy products of its affiliated company, Henan Huahuaniu Milk Industry Group Holding Ltd., especially the fresh milk distribution service provided to customers, benefited the owners and our employees (which increased income of the employees) and gained high reputation;
- (3) we established strategic cooperation with Xi’an Lifeng Enterprise Development Investment (Group) Co., Ltd.* (西安立豐企業發展投資(集團)有限公司), which is a leading company in local business operations. Through acquisition of 80% of the equity interest in Xi’an Lifeng Property Management Co., Ltd. (西安立豐物業管理有限公司) (“**Xi’an Lifeng Property**”), we plan to expand the Group’s business penetration rate in Xi’an. The high-quality properties it manages including commercial and office buildings and residential properties, which will further realize the Group’s economies of scale, optimize the Group’s resource allocation and enhance the brand reputation in Xi’an with joint forces; and
- (4) we deeply cultivated in the industry and the Company’s university project services expanded from residential (expert apartments) to non-residential (teaching buildings, campuses, student dormitories, etc.), from serving one university (Henan University) to serving multiple universities (successfully won the bids of Zhengzhou University, Henan University of Technology, Zhengzhou City Vocational College, Xuchang Electric Vocational College, etc.). Kangqiao Service was gradually rooted in the educational circle and its business development flourished. As at December 31, 2021, the Company’s non-residential area under management was approximately 2.0 million square meters, accounting for approximately 8.7%, representing an increase of approximately 106.9% as compared with 2020.

During the Year, in line with the direction of national policies, we provided customers with a full range of services with “Creating a joyful life through Kangqiao’s considerate services (康派臻心、悦享生活)”. While actively consolidating the quality and scale of basic property services, we developed a variety of value-added services for non-owners based on customer needs (mainly focused on third-party developer business, non-owner value-added services such as sales offices to drive the extension of follow-up projects) and community value-added services. Our multi-channel business broadened our revenue streams and drove rapid performance growth. Among which, the value-added revenue of non-owners amounted to approximately RMB311.9 million, accounting for 39.8% of the total revenue. The community value-added service revenue amounted to approximately RMB120.9 million, accounting for 15.4% of the total revenue. The group buying in community and other businesses, which had been our key focus on nurturing based on the satisfaction of our owners and positive customer loyalty in 2021, still need our key focus on nurturing.

During the Year, we continued to increase our efforts in the field of building informatization, and improved the overall business operation efficiency through technological means. Focusing on the core business operation indicator of customer satisfaction, the Company’s digital technology center collected customer satisfaction feedback information from various online and offline channels through the self-developed “service satisfaction management system” combined with the performance appraisals of project personnel, in order to improve the customers’ perception and feedback on the service level from the business management level, and improve the overall operation efficiency.

As a key part of property management, project management is even one of the core segments. How to accurately perceive the service quality and compliance operation of each project has become a topic facing our current nationwide operation process. During the Year, based on the practical application of business, the Company’s engineering management center and the digital technology center cooperated closely to sort out the business management norms and standards in depth, in order to realize intelligent collection of various core business data such as energy consumption, inspection and maintenance in project management through digital means, bringing the accuracy of data analysis to a new level.

Be courageous in facing challenges and the road ahead would become broader after rainstorms. The new blueprint of Kangqiao Service has been drawn, and the new mission is inspiring. Guided by the new three-year strategic plan of the Group, we will work with unity and strive to build Kangqiao Service into an excellent life and smart city service operators, and achieve the expectations of our employees, owners and shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

(1) Business Overview

The Year of 2021 is an important milestone in the history of the Group's development, as the Company was listed on the Main Board of The Stock Exchange on July 16, 2021 (the "**Listing Date**"). This Year had been a year for the real estate industry to sharpen their sword and bring themselves together, and even a tough year for the business operation among the companies in Zhengzhou, Henan. Zhengzhou, Henan, which were hit repeatedly by historically rare floods and pandemics. Many business operations were severely damaged, and the construction of real estate development projects was seriously delayed. As a property management business in the downstream of the supply chain in the real estate industry, with its adherence to a prudent yet rapid development strategy, its accurate judgement on the market development trend, its quick adaptation to the market changes in order to adjust the pace of its operation, its continuance in expanding its scale, optimizing its revenue structure and improving its operating efficiency, the Group has achieved a steady growth in its scale and performance. During the Year, the Group's revenue was approximately RMB783.6 million, representing an increase of 36.1% as compared to approximately RMB575.6 million for 2020. Profit for the Year was approximately RMB88.6 million, representing a decrease of 3.5% as compared to approximately RMB91.8 million for 2020. Excluding the listing expenses of approximately RMB14.0 million, profit for the Year was approximately RMB102.6 million, representing an increase of 4.5% as compared to that of approximately RMB98.2 million for 2020. Profit attributable to equity owners of the Group was approximately RMB83.9 million, representing a decrease of 5.1% as compared to that of RMB88.4 million in 2020. Excluding the listing expenses of approximately RMB14.0 million, adjusted profit attributable to shareholders of the Group was approximately RMB97.9 million, representing an increase of 3.3% as compared to that of RMB94.8 million in 2020.

During the presence of the Group for over 10 years, the Group has been deeply rooted in Henan and has gradually expanded its business into key regions outside Henan, including Zhejiang, Jiangsu, Hubei, Hebei, Guangdong, Shandong and Shaanxi. Its business covers a variety type of properties, including residential properties and non-residential properties (such as commercial properties, office buildings, industrial parks, hospitals and other public infrastructure), as well as value-added services to non-property owners and community value-added services, with each business line developing in an integrated and balanced manner in the market. As at December 31, 2021, the Group provided property management services and value-added services in 31 cities in the PRC, with 182 projects under management and a contracted Gross Floor Area (“GFA”) of approximately 53.1 million sq.m., representing an increase of 36.1% as compared to 2020, of which the GFA under management was approximately 23.5 million sq.m., representing an increase of 49.6% as compared to 2020. The GFA under management of non-residential properties, among which 97.0% were from third party property developers, was approximately 2.0 million sq.m., representing an increase of 106.9% as compared to 2020.

In 2021, the COVID-19 pandemic fluctuated globally, posing an unprecedented challenge to the global economy. The entire city of Zhengzhou, Henan, was attacked by the “7.20” flood, leading to a significant impact on the economy of Zhengzhou as well as Henan. Under the strong and core leadership under the General Secretary Xi Jinping of the Central Committee of the Chinese Communist Party, China has effectively prevented and controlled the epidemic, so that it could continue to revive the economic recovery, increase the production demand, stabilize the employment and commodity prices, and steadily improve the quality and efficiency, which has led to a stable and upward trend of the economic development. With the favorable macroeconomic policies of the domestic property industry and the people’s demand for a better life to live and work in peace and contentment, the development of the property industry has shown an effective growth. The Group, in conjunction with the effective implementation of the national prevention and control policies in the community, continued to pay attention to the situation of COVID-19 to ensure the safety of the lives and properties of property owners and our employees, maintain sufficient inventory for prevention and control of the epidemic and business defense, and actively prevent its impact on the financial position and operating results of the Group. The Group considered that COVID-19 did not have any material adverse impact on the financial position and operating results of the Group. However, the impact brought by COVID-19 and the “7.20” flood in Zhengzhou on the real estate industry had led to, among others, delayed delivery, reduction in some on-site personnel and closure, which impacted partly our operating efficiency. In response to the new situation in the real estate industry, the adjustment of the development strategy of Kangqiao Service had also been adjusted appropriately in 2021:

- (i) Enhancement of the business expansion of third-party developers, especially the cooperation with state-owned platforms. For example, Kangqiao Service had entered into a strategic cooperation with three companies with state-owned background in 2021; moreover, we should dig deeper into the resources of the joint ventures who had already been working with us, and undertake more business of third-party partners such as Zhengzhou Kangqiao Guotou Technology Industry Service Co., Ltd. (鄭州康橋國投科技產業服務有限公司) under our Group, whose team was full of cohesion and undertook successively projects such as industrial park, talent apartments, etc in 2021. Not only did they achieve the annual results target, but also improved enormously the satisfaction among our owners, which had inspired a bigger encouragement and joy.
- (ii) Deep cultivation in the industry. In 2021, Kangqiao Service's service to the university category had moved from residential (expert apartments) to non-residential (educational building, campus, student dormitory, etc.), from one (Henan University) to more (being the successful tender of Zhengzhou University, Henan University of Technology, City University of Zhengzhou, Xuchang Electrical Vocational College, etc.), taking root in the education sector gradually for further cultivation.

(2) Three Major Business Lines

The Group is a reputable comprehensive property management service provider in the PRC, with a leading position in Henan. In April 2021, the Group was awarded the title of “2021 China Top 100 Property Management Companies” by China Index Academy, with its overall industry strength ranking increased by five places to 37th compared with the Year of 2020. The Group generates its revenue mainly from three business lines: (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services.

Property management services. We provide property owners, property developers, residents of residential properties as well as tenants in non-residential properties with a wide range of property management services, which typically include security, cleaning, greening, gardening, repairs and maintenance services. The Group's portfolio of properties under management comprises of residential properties and non-residential properties, such as commercial properties, office buildings, industrial parks, hospital and other public infrastructure. The Group's business has been effectively improved in 2021, especially the GFA under management of non-residential properties of the Group increased by 106.9% compared with 2020.

Value-added services to non-property owners. We provide value-added services to non-property owners, primarily property developers, mainly consisting of (i) sales office management services to property developers' sales offices and show flats, such as visitor reception, cleaning and security services; (ii) pre-delivery services that the Group offers to property developers at different stages before the delivery of properties from the perspective of property owners and future property management services, primarily including optimization of construction blueprints at the drawing design stage, quality control during the construction process, measurement and inspection of completed units prior to delivery; (iii) sales agency services in which the Group mainly facilitates property developers in selling their first-hand properties prior to property delivery; (iv) construction site management services in which the Group provides daily security services to constructors and property developers, such as video surveillance, emergency response, access control and visitor management; and (v) consultancy services for property developers and property management companies in relation to sales and management of projects. Revenue from value-added services to non-property owners of the Group was approximately RMB311.9 million, representing a growth of approximately 32.5% as compared to RMB235.4 million for 2020. The increase in the revenue from value-added services to non-property owners was mainly due to the increase in revenue from sales agency services.

Community value-added services. We also provide a comprehensive range of community value-added services to property owners and residents to improve their living experiences and to preserve and increase the value of their assets. These services primarily include (i) home-living services, such as housekeeping and cleaning services, home maintenance services, decoration and move-in furnishing services and shopping services; (ii) community operation services with respect to managing community spaces and optimizing the utilization of public resources, such as assist third-party vendors in seeking suitable places to operate or promote their businesses, facilitating their promotional events, daily cleaning and equipment maintenance; and (iii) asset operation services, primarily including property agency services with respect to second-hand properties and unsold parking spaces after property delivery, as well as rental service in relation to parking spaces and shop spaces. Revenue from community value-added services provided by the Group was RMB120.9 million, representing a growth of 41.8% as compared to that of RMB85.2 million for 2020, which was mainly attributable to the increase of the GFA under management and service users as well as the increasing diversification of types of lifestyle services business.

II. OUTLOOK AND STRATEGY

Kangqiao Service is committed to becoming an outstanding integrated operator which aims at providing better life and smart city services. The Group has always been upholding the original intention of providing customers with “satisfaction + surprise” and has been working hard to move forward. 2022 is a crucial year for the Group’s development and transition from the past to the future. Focusing on the new three-year strategic goal, we adhere to the core values of long-termism, preserving the original essence while aiming for victory with creativity. With the means of digitalization, profits are generated from operation and the capacity of business in every industry is improved. Facing the challenging and uncertain situation in the real estate industry, it is more essential for the management of the Group to have the strength of “carving bones for healing,” the courage to execute, and the joint effort to progress. We follow strictly the guidance of policies, with which we integrated our own characters for appropriate innovation and breeding, in order to adapt to the new race track without blindly following the trend and missing opportunity. Through endless learning and study, seeking the innovation of profit model of the industry, the profit model has progressed from a single type to a cross-industry type. With our firm belief in the strategic goal of Kangqiao Service and the advantage in offense, we marketize our development for the expansion of scale and increase our revenue by exporting our intelligence in light asset. The non-mature businesses will gradually be nurtured to achieve rapid development with quality and improve recognition in the market. We calmly respond to the intensive competition in the capital market and offer rewards to its shareholders, customers and employees.

III. FINANCIAL REVIEW

Revenue

The Group's revenue was mainly generated from three major businesses: (i) property management services; (ii) value-added services to non-property owners; and (iii) community value-added services. During the Year, the Group's revenue was approximately RMB783.6 million, representing an increase of 36.1% as compared to RMB575.6 million for 2020.

The following table sets out the revenue contribution of each business line for the years indicated:

	Year ended December 31,			
	2021		2020	
	RMB'000	%	RMB'000	%
Property management services	350,767	44.8	254,956	44.3
Value-added services to non-property owners	311,935	39.8	235,408	40.9
Community value-added services	120,865	15.4	85,221	14.8
Total	<u>783,567</u>	<u>100.0</u>	<u>575,585</u>	<u>100.0</u>

Property management services

During the Year, the Group's revenue from the provision of property management services amounted to RMB350.8 million, representing an increase of 37.6% as compared to RMB255.0 million for 2020, which was mainly attributable to the rapid increase in the total GFA under management as a result of the Group's business expansion.

Value-added services to non-property owners

During the Year, the Group's revenue from the provision of value-added services to non-property owners amounted to approximately RMB311.9 million, representing an increase of 32.5% as compared to RMB235.4 million for 2020. The increase in revenue from value-added services to non-property owners was mainly attributable to the increase in revenue from sales agency services.

Community value-added services

During the Year, the Group's revenue from the provision of community value-added services amounted to approximately RMB120.9 million, representing an increase of 41.8% as compared to RMB85.2 million for 2020, which was mainly attributable to the increase in the area under management and service users as well as the increasing diversification of the types of lifestyle services business.

Cost of sales

The Group's cost of sales primarily consists of employee benefit expenses and labor costs, greening and cleaning expenses, utilities, maintenance and customer service costs, security service costs, sales agency service costs, office expenses, rental expenses related to short-term leases, travelling and entertainment expenses, depreciation and amortization charges and others.

During the Year, the Group's cost of sales was approximately RMB579.7 million, representing an increase of approximately 45.3% as compared to approximately RMB399.0 million for 2020. The increase in cost of sales was mainly due to the rapid growth of the Group's business scale.

Gross profit and gross profit margin

The following table sets out the Group's gross profit and gross profit margin by business line for the years indicated:

	Year ended December 31,			
	2021		2020	
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>RMB'000</i>	margin	<i>RMB'000</i>	margin
		%		%
Property management services	55,815	15.9	44,351	17.4
Value-added services to non-property owners	109,862	35.2	84,301	35.8
Community value-added services	38,175	31.6	47,892	56.2
Total	203,852	26.0	176,544	30.7

During the Year, the Group's gross profit margin was approximately 26.0%, representing a decrease of 4.7 percentage points compared to 30.7% for 2020, mainly due to the decrease of gross profit margin of property management services and community value-added services.

The gross profit margin of property management services was 15.9%, representing a decrease from 17.4% for 2020, which was mainly because the Company actively stepped up its efforts in team building, conducted recruitment activities and completed talent training ahead of time for the main purpose of providing good service to the upcoming projects; at the same time, in order to increase the scale of public infrastructure project management and accumulate experience, the Company took an initiative to offer competitive pricing during the bidding process.

The gross profit margin of value-added services to non-property owners was 35.2%, representing a decrease from 35.8% for 2020, which was mainly due to the overall lower gross margin of value-added services to non-property owners as a result of the faster growth in the scale of sales agency services related to first-hand properties and the relatively lower prices the Group offered to expand our business to compete with other companies.

The gross profit margin of community value-added services was 31.6%, representing a decrease from 56.2% for 2020, which was mainly due to the significant increase in revenue generated from community operation services (such as sale of community merchandise) which the Group has vigorously promoted during the Year, with overall lower gross profit margin of these businesses, while on the other hand, due to the objective environment, the performance of intermediary brokerage business such as second-hand property transactions has declined.

Other income

During the Year, the Group's other income amounted to approximately RMB8.5 million, representing a decrease of 60.2% as compared to approximately RMB21.3 million for 2020. Such decrease was mainly due to the decrease in interest income from loans to related parties.

Selling and marketing expenses

During the Year, the Group's selling and marketing expenses amounted to approximately RMB15.3 million, representing an increase of 42.3% as compared to approximately RMB10.8 million for 2020. The increase in selling and marketing expenses was mainly due to the increase in the Group's employee benefit expenses as well as travelling and entertainment expenses, which were caused by the further expansion of the Group's business.

Administrative expenses

During the Year, the Group's administrative expenses amounted to approximately RMB61.7 million, representing an increase of 55.2% as compared to approximately RMB39.8 million for 2020, mainly due to the listing expenses arising from the global offering and the increase in expenses due to business expansion.

Income tax expenses

During the Year, the Group's income tax expenses amounted to approximately RMB31.6 million, representing a decrease of 1.6% as compared to approximately RMB32.1 million for 2020. The decrease in income tax expenses was mainly due to the decrease in profit before tax.

Profit for the Year

Profit for the Year was approximately RMB88.6 million, representing a decrease of approximately 3.5% as compared to that of RMB91.8 million for 2020. Excluding the listing expenses of approximately RMB14.0 million, adjusted profit for the Year was approximately RMB102.6 million, representing an increase of approximately 4.5% as compared to that of RMB98.2 million for 2020. Profit for the Year attributable to the owners of the Company was approximately RMB83.9 million, representing a decrease of approximately 5.1% as compared to that of RMB88.4 million for 2020. Excluding the listing expenses of approximately RMB14.0 million, adjusted profit attributable to owners of the Company was approximately RMB97.9 million, representing an increase of 3.3% compared to that of RMB94.8 million in 2020. Adjusted profit for the Year (attributable to owners of the Company) is defined as profit for the Year (attributable to owners of the Company) excluding non-recurring listing expenses. As listing expenses are non-recurring in nature and not related to the performance of the Group's operation, the Directors consider that the presentation of the Group's adjusted profit for the Year (attributable to owners of the Company) by eliminating the impact of listing expenses can better reflect the operational performance during the respective years. Furthermore, the Group's management also uses the adjusted profit for the Year (attributable to

owners of the Company) to assess the Group's operating performance and formulate business plans. The Group believes that the adjusted profit for the Year (attributable to owners of the Company) provides useful information to the investors about its core business operations, which they can use to evaluate the Group's operating results and understand its consolidated results of operations in the same manner as the management.

Liquidity, reserves and capital structure

The Group maintained a strong financial position during the Year. As at December 31, 2021, the current assets amounted to approximately RMB983.7 million, representing an increase of approximately 15.2% as compared to that of RMB854.2 million for 2020. As at December 31, 2021, the Group's cash and cash equivalents were mostly denominated in RMB and amounted to approximately RMB540.8 million, representing an increase of approximately 301.3% from RMB134.8 million as at December 31, 2020, mainly due to the receipt of the initial global offering proceeds during the Year. The Group's current ratio (current assets divided by current liabilities) as at December 31, 2021 was approximately 2.4, representing an increase of 42.5% from 1.7 as at December 31, 2020. The asset-liability ratio (total liabilities divided by total assets) as at December 31, 2021 was 38.2%, representing a decrease of 43.3% from 81.5% as at December 31, 2020.

As at December 31, 2021, the Group did not have any bank borrowings and the gearing ratio (total borrowings divided by total equity) was nil.

The Group actively reviews and manages its capital structure on a regular basis and strikes a balance between retaining higher returns for the Group's owners and the possible high level of borrowing, while maintaining the advantages and security of a strong capital position and adjusting the capital structure in response to changes in economic conditions.

Trade and other receivables

As at December 31, 2021, trade and other receivables and prepayments amounted to approximately RMB486.4 million, representing a decrease of 32.4% from RMB719.5 million as at December 31, 2020, which was mainly attributable to the Group's enhanced efforts in recovering outstanding trade and other receivables.

Trade and other payables

As at December 31, 2021, trade and other payables amounted to approximately RMB248.7 million, representing an increase of 10.3% from RMB225.5 million as at December 31, 2020. This was mainly attributable to the Group's optimization in settlement of trade and other payables.

Foreign exchange risk

The Group operates its business primarily in the PRC. RMB is the currency used by the Group for valuation and settlement of all transactions. Any depreciation of RMB would adversely affect the value of any dividends paid by the Group to shareholders outside the PRC. Majority of the Group's cash and cash equivalents is denominated in RMB. The Group is currently not engaged in hedging activities that are designed or intended to manage foreign exchange rate risk. The Group will continue to monitor foreign exchange activities and make its best efforts to protect the cash value of the Group.

Pledge of assets

As at December 31, 2021, the Group did not provide mortgage nor guarantees for loans.

Contingent liabilities

As at December 31, 2021, the Group did not have any material contingent liabilities and capital commitments.

Material acquisitions and disposals

On September 30, 2021, the Group, Xi'an Lifeng Property, the existing shareholders of Xi'an Lifeng Property and Yan Ming (the ultimate beneficial owner of Xi'an Lifeng Property, as the guarantor) entered into an investment agreement, pursuant to which the Group agreed to acquire 80% of the equity interest in the Xi'an Lifeng Property by equity transfer from its existing shareholders (the "**Investment**"). The total consideration for the Investment is RMB164.07 million. Upon completion of the Investment, Xi'an Lifeng Property will become a subsidiary of the Group. The Investment constituted a discloseable transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). For details of the Investment, please refer to the announcements of the Company dated September 30, 2021 and November 12, 2021.

In October 2021, the Group acquired 51% equity interest in Dingfeng Property, a well-known property management company located in Zhengzhou City, Henan Province, the PRC, for a total consideration of approximately RMB24.6 million. The acquired business of Dingfeng Property has contributed to total revenue of RMB4,467,000 and net profit of RMB512,000 of the Group for the year ended December 31, 2021 from the acquisition date to December 31, 2021.

Save as disclosed above, there are no other major investments, material acquisitions or disposals of subsidiaries, associates and joint ventures held as at December 31, 2021, nor are there any plans for other significant investments or additions to capital assets as authorized by the Board.

Significant investments

During the Year, the Group did not hold any significant investments.

Future plans for major investments

The Group intends to utilize part of the net proceeds raised from the global offering to acquire property management companies and professional service companies, and to cooperate with local municipal investment companies or local property developers through capital injection or forming joint ventures according to the prospectus of the Company dated June 29, 2021 (the “**Prospectus**”). As at the date of this announcement, the Group does not have any other material plans to invest in the future.

Events after balance sheet date

As disclosed in note 16 to the consolidated financial statements of this announcement and the continuing connected transaction announcement of the Company dated April 21, 2022, the Group and certain subsidiaries of Beijing Tongdao entered into several sales agency services agreements, pursuant to which the Group paid the historical refundable deposits in an aggregate amount of RMB134,969,000 subsequent to the Year. Further, during the Year, the Group has paid the historical refundable deposits in an aggregate amount of RMB85,836,000. As of April 21, 2022, the outstanding balance of the historical refundable deposits amounts to RMB180,777,000. As one or more of the applicable percentage ratios in respect of such historical refundable deposits have exceeded 5%, such payment of the historical refundable deposits constituted continuing connected transactions of the Company subject to the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. As the Company had not complied with such applicable requirements prior to making the payment of such refundable deposits, such payment constituted a breach of Chapter 14A of the Listing Rules.

The Board wishes to clarify that the abovementioned breach of the Listing Rules was due to an inadvertent oversight. Since the Group has been involved in a number of continuing connected transactions with Beijing Tongdao (together with its subsidiaries and associates, the “**Beijing Tongdao Group**”) (including those contemplated under the Sales Agency Services Framework Agreement), the Company was mistaken of the nature and classification of the Refundable Deposits. The Company regrets such unintentional breach of the Listing Rules and reiterates its belief that continuing compliance with the Listing Rules and other applicable regulatory requirements is of utmost importance.

On April 21, 2022, the Company and Beijing Tongdao entered into a supplemental sales agency services framework agreement (the “**Supplemental Sales Agency Services Framework Agreement**”), pursuant to which members of the Group shall pay to members of the Beijing Tongdao Group the refundable deposits in connection with the sales agency services contemplated under the Sales Agency Services Framework Agreement. An ordinary resolution will be proposed at the annual general meeting (“**AGM**”) for the independent Shareholders to consider and, if thought fit, approve the entering into of the Supplemental Sales Agency Services Framework Agreement, the transactions contemplated thereunder and the ratification of the payment of the historical refundable deposits.

As at the date of this announcement, the aforementioned refundable deposits in the amount of RMB180,777,000 had all been refunded to the Group.

Employee and remuneration policy

As at December 31, 2021, the Group had a total of 1,857 employees (December 31, 2020: 1,777).

The Group has a well-established recruitment and internal promotion system in place and strive to hire talented employees by offering competitive wages, bonuses, benefits, systematic training opportunities and internal promotions. The Group hires employees through a combination of online recruitment, job fairs, campus recruitment and referrals. To provide employees with fair competition opportunities, in addition to external recruitment, selections for management positions are open to all employees for application.

The Group offers employee with benefits such as housing allowances, cultural and social events, as well as holiday and birthday gifts. The Group is also committed to embracing diversity within the Group’s organization and treating all of the Group’s employees with equality and respect in recruitment, training, wellness, as well as professional and personal development. While maximizing equal career opportunities for everyone, the Group will continue to promote work-life balance and create a culture of fun for all employees in the Group’s workplace and pantry.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on July 16, 2021, being the Listing Date, and the total net proceeds from the global offering, after deduction of the listing expenses, amounted to approximately HK\$628.9 million.

Proceeds from the global offering are and will continue to be applied in accordance with the plans disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus. The following table sets forth the status of use of net proceeds from the global offering as at December 31, 2021:

Purposes	Percentage of total amount <i>(approximate)</i>	Net proceeds as disclosed in the Prospectus <i>(HK\$ million)</i>	Proceeds used as at December 31, 2021 <i>(HK\$ million)</i>	Balance <i>(HK\$ million)</i>	Expected timeline for the use of proceeds
Pursue selective strategic investment and acquisition opportunities to further develop strategic cooperation and expand our business scale	65%	408.8	82.2	326.6	By December 2024
Invest in our intelligent operational and internal management systems to improve service quality and customer experience	10%	62.9	5.5	57.4	By December 2024
Enrich and expand our service and product offerings to develop our diverse business lines	15%	94.3	12.3	82.0	By December 2024
Working capital and other general corporate purposes	10%	62.9	14.2	48.7	By December 2024
Total	<u>100%</u>	<u>628.9</u>	<u>114.2</u>	<u>514.7</u>	

As at December 31, 2021, the proceeds were deposited in short-term interest-bearing bank accounts with domestic and overseas licensed financial institutions.

PURCHASE, SALE, OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to December 31, 2021 (the “**Relevant Period**”), neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining a high standard of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules as its code of governance. During the Relevant Period, the Company has complied with all applicable code provisions under the CG Code. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

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 of the Listing Rules as the code for dealing in the securities of the Group by the Directors. After specific enquiries made to all Directors, each of the Directors has confirmed their compliance with the required standard set out in the Model Code throughout the Relevant Period.

DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.03 per share for the year ended December 31, 2021. The final dividend is subject to approval from the shareholders of the Company (the “**Shareholders**”) at the AGM to be held on June 8, 2022 and will be expected to be paid on June 29, 2022 to the Shareholders whose names appear on the register of members of the Company on June 17, 2022.

Closure of the Register of Members

(i) To attend and vote at the AGM

The register of members of the Company will be closed from June 2, 2022 to June 8, 2022, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM. In order to be eligible to attend the AGM, all properly completed transfer forms for shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on June 1, 2022.

(ii) To qualify for the final dividend

The register of members of the Company will be closed from June 14, 2022 to June 17, 2022, both days inclusive, in order to determine the identity of the Shareholders who are entitled to receive the final dividend. In order to be eligible to receive the final dividend, all properly completed transfer forms for shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on June 13, 2022.

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) which consisted of one non-executive Director, namely Mr. SONG Gewei; and two independent non-executive Directors, namely Mr. WONG Yun Pun and Dr. FAN Yun. The Audit Committee is chaired by Mr. WONG Yun Pun. Mr. WONG Yun Pun is an independent non-executive Director possessing appropriate professional accounting and related financial management expertise. The primary duties of the Audit Committee are to review the financial information of the Company, and supervise the financial reporting system, risk management and internal control process of the Company.

The Audit Committee has reviewed and agreed the audited annual results of the Group for the year ended December 31, 2021 together with the Board and considered that such results have been prepared in accordance with applicable accounting standards and requirements with sufficient disclosure.

SCOPE OF WORK FOR ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended December 31, 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF AUDITED ANNUAL RESULTS AND 2021 ANNUAL REPORT

This audited annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kqysh.com.cn). The annual report of the Company for the year ended December 31, 2021 will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
Kangqiao Service Group Limited
SONG Gewei
Chairman

Hong Kong, April 29, 2022

As at the date of this announcement, the Board comprises Mr. SONG Gewei as the chairman and non-executive Director; Mr. DAI Wei, Mr. KANG Weiguo and Ms. WANG Na as executive Directors; and Dr. LI Haitao, Dr. FAN Yun and Mr. WONG Yun Pun as independent non-executive Directors.

* *The English name of the related parties represents the best effort by the management of the Group in translating their Chinese names as they do not have an official English name.*