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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2022**

FINANCIAL HIGHLIGHTS

1. Revenue for the six months ended June 30, 2022 was approximately RMB372.0 million, representing a decrease of 6.4% as compared to the corresponding period in 2021.
2. Revenue by business lines for the Reporting Period was as follows: (i) revenue from property management services was approximately RMB224.3 million, accounting for 60.3% of the total revenue, representing an increase of 38.0% as compared to the corresponding period in 2021; (ii) revenue from value-added services to non-property owners was approximately RMB78.8 million, accounting for 21.2% of the total revenue, representing a decrease of 54.3% as compared to the corresponding period in 2021; (iii) revenue from community value-added services was approximately RMB59.2 million, accounting for 15.9% of the total revenue, representing a decrease of 5.1% as compared to the corresponding period in 2021; and (iv) revenue from city services was approximately RMB9.7 million, accounting for 2.6% of the total revenue.
3. Gross profit for the Reporting Period was approximately RMB105.7 million, representing a decrease of 6.0% as compared to the corresponding period in 2021. Gross profit margin was 28.4%, representing an increase of 0.1% as compared to the corresponding period in 2021.
4. Profit for the Reporting Period was approximately RMB56.7 million, representing an increase of 3.5% as compared to the corresponding period in 2021. Profit for the Reporting Period attributable to owners of the Company was approximately RMB49.5 million, representing a decrease of 3.5% as compared to the corresponding period in 2021.

5. The contracted GFA in respect of property management services during the Reporting Period was approximately 61.1 million sq.m., representing an increase of 37.7% as compared to approximately 44.4 million sq.m. for 2021, among which approximately 48.7 million sq.m. or 79.6% were from third party property developers. The GFA under management was approximately 29.5 million sq.m., representing an increase of 48.4% as compared to approximately 19.9 million sq.m. for 2021, among which approximately 22.9 million sq.m. or 77.5% were from third party property developers. The GFA under management of non-residential properties was approximately 3.9 million sq.m., representing an increase of 61.6% as compared to approximately 2.4 million sq.m. for 2021, among which approximately 98.4% of non-residential properties were from third party property developers.
6. The Board resolved not to declare any interim dividend for the six months ended June 30, 2022.

The board (the “**Board**”) of directors (the “**Directors**”) of Kangqiao Service Group Limited (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “**Group**” or “**Kangqiao Service**”) for the six months ended June 30, 2022 (the “**Reporting Period**”) with comparative figures for the corresponding period in 2021 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousand unless otherwise stated)

	Notes	Six months ended June 30,	
		2022 (Unaudited)	2021 (Unaudited)
Revenue	5	372,018	397,357
Cost of sales	6	(266,294)	(284,940)
Gross profit		105,724	112,417
Administrative expenses	6	(22,721)	(29,191)
Selling and marketing expenses	6	(6,213)	(5,441)
Net impairment losses on financial assets		(11,609)	(1,344)
Other income		6,672	6,046
Other (losses)/gains - net		(4,696)	58
Operating profit		67,157	82,545
Finance income		2,625	113
Finance costs		(689)	(7,975)
Finance income/(costs) - net		1,936	(7,862)
Share of profit of investments accounted for using the equity method		453	156
Profit before income tax		69,546	74,839
Income tax expenses	7	(12,853)	(20,046)
Profit for the period		56,693	54,793
Profit attributable to:			
– Owners of the Company		49,456	51,290
– Non-controlling interests		7,237	3,503
		56,693	54,793
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
– Exchange difference on translation of foreign operations		5,589	30
Total comprehensive income for the period		62,282	54,823
Total comprehensive income attributable to:			
– Owners of the Company		55,045	51,320
– Non-controlling interests		7,237	3,503
		62,282	54,823
Earnings per share			
– Basic and diluted (expressed in RMB per share)	8	0.071	0.098

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousand unless otherwise stated)

		As at June 30, 2022	As at December 31, 2021
	Notes	(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property and equipment		12,833	10,207
Intangible assets		54,422	56,118
Investment properties		2,987	3,893
Right-of-use assets		3,365	3,130
Investments accounted for using the equity method		1,385	932
Deferred income tax assets		14,037	9,988
Prepayments	9	65,629	65,629
Restricted cash		301	1,325
		154,959	151,222
Current assets			
Inventory		1,080	1,075
Trade and other receivables and prepayments	9	459,973	420,774
Financial assets at fair value through profit or loss		49,299	21,018
Cash and cash equivalents		513,433	540,833
Restricted cash		924	-
		1,024,709	983,700
Total assets		1,179,668	1,134,922
EQUITY			
Equity attributable to owners of the Company			
Share capital		5,831	5,831
Other reserves		530,491	545,902
Retained earnings		165,612	116,156
		701,934	667,889
Non-controlling interests		41,035	33,508
Total equity		742,969	701,397
LIABILITIES			
Non-current liabilities			
Lease liabilities		3,792	4,783
Deferred income tax liabilities		6,671	7,028
Other payables	10	4,832	5,450
Contract liabilities		5,861	8,779
		21,156	26,040
Current liabilities			
Contract liabilities		149,255	138,024
Trade and other payables	10	245,141	243,292
Current income tax liabilities		14,301	21,167
Lease liabilities		6,846	5,002
		415,543	407,485
Total liabilities		436,699	433,525
Total equity and liabilities		1,179,668	1,134,922

NOTES TO THE INTERIM FINANCIAL INFORMATION

(All amounts expressed in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION

Kangqiao Service Group Limited (the “Company”) was incorporated in the Cayman Islands on October 8, 2020 as an exempted company with limited liability under the Companies Act, Cap. 22 (Revised) 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 is an investment holding company. The Company and its subsidiaries (together, the “Group”) are 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 entity of the Group is Hung Fai Property Limited, which is controlled by Mr. Song Gewei (“Mr. Song”, the “Controlling Shareholder”).

The interim condensed consolidated balance sheet as at June 30, 2022, and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved for issuance by the Board of Directors of the Company (the “Board”) on August 25, 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 development and 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 Interim 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.

The Interim Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

The Interim Financial Information has been reviewed but not audited.

2 BASIS OF PREPARATION

This Interim Financial Information for the six months ended June 30, 2022 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2021 which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), and any public announcements made by the Group during the interim reporting period.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) Amendments to existing standards adopted by the Group

The Group has applied the following amendments for the first time for the reporting period commencing January 1, 2022. The adoption of these amendments does not have significant impact on the Interim Financial Information of the Group.

Amendments to HKFRS 16	COVID-19-related Rent Concessions
Amendments to HKFRS 3	Update Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use
Amendments to HKAS 37	Onerous Contracts – Costs of Fulfilling a Contract
Annual Improvements	Annual Improvements to HKFRS Standards 2018-2020
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combination

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (b) New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning on January 1, 2022 and have not been early adopted by the Group are as follows:

		<u>Effective for annual periods beginning on or after</u>
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 Venture	To be determined

The Group has already commenced an assessment of the impact of these new or amended standards, which are not expected to have a material impact on the Group in the current or future reporting period.

4 SEGMENT INFORMATION

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

During the six months ended June 30, 2022 and 2021, the Group is principally engaged in provision of property management services and related value-added services in the PRC. Management of the Company reviews the operating results of the business as a single reportable 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 six months ended June 30, 2022 and 2021, all the revenue of the Group were derived in the PRC. As at June 30, 2022, substantially all assets of the Group were located in the PRC.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

5 REVENUE

Revenue of the Group mainly comprises of proceeds from property management services and related value-added services. An analysis of the Group's revenue by categories for the six months ended June 30, 2022 and 2021 is as follows:

	Six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
Property management services	224,302	162,490
Value-added services to non-property owners	78,798	172,449
Community value-added services	59,220	62,418
City services	9,698	-
	372,018	397,357
Timing of revenue recognition:		
- Over time	302,585	249,524
- At a point in time	69,433	147,833
	372,018	397,357

For the six months ended June 30, 2022, revenue from entities controlled by Mr. Song contributed 13.8% (six months ended June 30, 2021: 38.1%) 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 six months ended June 30, 2022 (six months ended June 30, 2021: same).

6 EXPENSES BY NATURE

	Six months ended June 30,	
	2022 (Unaudited)	2021 (Unaudited)
Employee benefit expenses and labour costs	80,638	88,977
Greening and cleaning expenses	56,709	42,509
Security service costs	53,765	47,697
Maintenance and customer service costs	28,041	25,742
Sales agency service costs	18,636	51,206
Utilities	15,067	10,576
Cost of goods sold	8,983	18,025
Office expenses	5,928	5,266
Decoration business cost	5,587	3,555
Travelling and entertainment expenses	2,649	2,972
Amortisation of intangible assets	1,696	610
Depreciation of property and equipment	1,577	1,044
Depreciation of investment properties	906	906
Depreciation of right-of-use assets	770	572
Listing expenses	-	9,032
Others	14,276	10,883
	295,228	319,572

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

7 INCOME TAX EXPENSES

	<u>Six months ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Current income tax		
- PRC corporate income tax	17,259	20,880
Deferred income tax		
- PRC corporate income tax	(4,406)	(834)
	<u>12,853</u>	<u>20,046</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act (Revised) 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.

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was provided as the Group did not have assessable profit in Hong Kong for the six months ended June 30, 2022 (six months ended June 30, 2021: 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 periods, based on the existing legislation, interpretations and practices in respect thereof. The statutory tax rate is 25% for the reporting period. Under the relevant regulations of the Corporate Income Tax Law, certain subsidiaries of the Group are qualified as small enterprises earning low profits in the PRC are subject to a reduced income tax rate of 20% in the respective periods. 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 the undistributed earnings of its subsidiaries in Mainland China during the six months ended June 30, 2022 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.

8 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 six months ended June 30, 2022.

The Company did not have any potential ordinary shares outstanding during the six months ended June 30, 2022 and 2021. Diluted earnings per share was equal to basic earnings per share.

	<u>Six months ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Profit attributable to owners of the Company (RMB'000)	49,456	51,290
Weighted average number of ordinary shares in issue (in thousands)	<u>700,000</u>	<u>525,000</u>
Basic and diluted earnings per share attributable to the owners of the Company during the period (expressed in RMB per share)	<u>0.071</u>	<u>0.098</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

9 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at June 30, 2022 <u>(Unaudited)</u>	As at December 31, 2021 <u>(Audited)</u>
Trade receivables (Note (a))		
- Related parties	224,787	189,168
- Third parties	<u>181,320</u>	<u>131,857</u>
	406,107	321,025
Less: allowance for impairment of trade receivables	<u>(24,563)</u>	<u>(14,033)</u>
	<u>381,544</u>	<u>306,992</u>
Other receivables		
- Amounts due from related parties	54,070	74,837
- Cash advances to non-controlling interests	230	230
- Deposits	8,021	3,565
- Cash advances to a third party	-	20,926
- Others	<u>18,258</u>	<u>15,219</u>
	80,579	114,777
Less: allowance for impairment of other	<u>(3,119)</u>	<u>(2,040)</u>
	<u>77,460</u>	<u>112,737</u>
Prepayments		
- Prepayments to third party	<u>66,598</u>	<u>66,674</u>
	<u>525,602</u>	<u>486,403</u>
Less: non-current portion of prepayments (Note (c))	<u>(65,629)</u>	<u>(65,629)</u>
Current portion of trade and other receivables and prepayments	<u>459,973</u>	<u>420,774</u>

Notes:

(a) Trade receivables mainly arise from property management services income and related value-added services income.

Property management services income are received in accordance with the terms of the relevant services agreements. Income from property management services is due for payment by the residents upon the issuance of demand note.

Value-added services income is usually with a credit term ranges from 0 to 180 days.

(b) As at June 30, 2022 and December 31, 2021, the ageing analysis of the trade receivables based on recognition date were as follows:

	As at June 30, 2022 <u>(Unaudited)</u>	As at December 31, 2021 <u>(Audited)</u>
0-180 days	168,547	185,652
181-365 days	142,111	85,039
1 to 2 years	73,018	34,902
2 to 3 years	14,198	9,099
3 to 4 years	4,305	3,648
Over 4 years	<u>3,928</u>	<u>2,685</u>
	<u>406,107</u>	<u>321,025</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

9 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Notes:

- (c) As at June 30, 2022 and December 31, 2021, the non-current portion of prepayments represented a prepayment of RMB65,629,000 for the acquisition of 80% equity interest in an property management service company.
- (d) As at June 30, 2022 and December 31, 2021, trade and other receivables were denominated in RMB and the carrying amounts of trade and other receivables approximated their fair values.

10 TRADE AND OTHER PAYABLES

	<u>As at June 30,</u> 2022 (Unaudited)	<u>As at December 31,</u> 2021 (Audited)
Trade payables (Note (a))		
- Related parties	179	627
- Third parties	<u>57,970</u>	<u>66,113</u>
	<u>58,149</u>	<u>66,740</u>
Other payables		
- Amounts due to related parties	18,082	21,890
- Payables for acquisition of a subsidiary	4,398	4,201
- Deposits from third parties	52,457	42,796
- Accrued payroll and workforce payables	26,426	40,974
- Dividend payables	21,000	-
- Other tax payables	5,845	10,239
- Others	<u>63,616</u>	<u>61,902</u>
	<u>191,824</u>	<u>182,002</u>
	<u>249,973</u>	<u>248,742</u>
Less: non-current portion of other payables	<u>(4,832)</u>	<u>(5,450)</u>
Current portion of trade and other payables	<u>245,141</u>	<u>243,292</u>

Notes:

- (a) As at June 30, 2022 and December 31, 2021, ageing analysis of the trade payables based on invoice date were as follows:

	<u>As at June 30,</u> 2022 (Unaudited)	<u>As at December 31,</u> 2021 (Audited)
Up to 1 year	55,870	65,594
1 to 2 years	1,734	929
2 to 3 years	330	82
Over 3 years	<u>215</u>	<u>135</u>
	<u>58,149</u>	<u>66,740</u>

- (b) As at June 30, 2022 and December 31, 2021, trade and other payables were mainly denominated in RMB and the carrying amounts of trade and other payables approximated their fair values.

11 DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2022 (six months ended June 30, 2021: same).

A final dividend of RMB0.03 per share for the year ended December 31, 2021, totaling RMB21,000,000 were declared at the annual general meeting of the Company held on June 30, 2022. These final dividends have been distributed out of the Company's share premium.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

(1) Business Overview

2022 is an important year for the real estate industry to break the cold and recover. As a listed property enterprise, Kangqiao Service continues to (i) provide high-quality services of "satisfaction + refinement" for property owners in this extraordinary year; (ii) fulfill its commitment to shareholders of the Company (the "**Shareholders**") with stable business performance; and (iii) be responsible for the employees, so that the employees, with a sense of belonging and security, can devote themselves to work, and provide continuous and satisfactory services to the property owners.

At present, the Group's business covers a variety of property types, including residential property, non-residential property (such as commercial, office buildings, industrial parks, hospitals and other public infrastructure), and provision of city services (such as rail transit sanitation, city environmental sanitation and other services). The Group's business involves property management services, value-added services to non-property owners and community value-added services. All business areas are interconnected and market-oriented for balanced development. During the Reporting Period, the Group's revenue was approximately RMB372.0 million, representing a decrease of 6.4% as compared to approximately RMB397.4 million for the corresponding period in 2021.

As at June 30, 2022, the Group provided property management services and value-added services in 31 cities in the People's Republic of China (the "**PRC**"), with 199 projects under management and a contracted gross floor area (the "**GFA**") of approximately 61.1 million sq.m., representing an increase of 37.7% as compared to the corresponding period in 2021, among which approximately 48.7 million sq.m. or 79.6% were from third party property developers. The GFA under management was approximately 29.5 million sq.m., representing an increase of 48.4% as compared to approximately 19.9 million sq.m. for the corresponding period in 2021, among which approximately 22.9 million sq.m. or 77.5% were from third party property developers. The GFA under management of non-residential properties was approximately 3.9 million sq.m., representing an increase of 61.6% as compared to approximately 2.4 million sq.m. for the corresponding period in 2021, among which approximately 98.4% of non-residential properties were from third party property developers.

Since the beginning of this year, the international situation has been complex and grim, and the world economic growth has slowed down significantly. The 2019 novel coronavirus disease ("**COVID-19**") fluctuated globally, posing an unprecedented challenge to the global economy. 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 its employees, maintain sufficient inventory for prevention and control of the epidemic and business defense, and actively safeguard the financial position and operating results of the Group against the impact of COVID-19. The Group considered that COVID-19 did not have any material adverse impact on the financial position and operating results of the Group.

(2) Four Major Business Lines

The Group is a reputable comprehensive property management services provider in the PRC, with a leading position in Henan. In April 2022, the Group was awarded the title of “2022 China Top 100 Property Management Companies” by China Index Academy, with its overall industry strength ranking increased by eight places to 29th compared with the year of 2021. The Group generates its revenue mainly from four business lines: (i) property management services; (ii) value-added services to non-property owners; (iii) community value-added services; and (iv) city services.

Property management services — the Group provides 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, hospitals and other public infrastructure, and city services such as railway cleaning and sanitation services. The Group’s business has been effectively improved in 2022, especially in terms of increase in the GFA under management of non-residential properties of the Group by 61.6% as compared to the corresponding period in 2021. Revenue from property management services was approximately RMB224.3 million, accounting for 60.3% of the total revenue, representing an increase of 38.0% as compared to the corresponding period in 2021.

Value-added services to non-property owners — the Group provides 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 provided by the Group was approximately RMB78.8 million, representing a decrease of 54.3% as compared to that of approximately RMB172.4 million for the corresponding period in 2021. The decrease of the revenue from value-added services to non-property owners was due to the shrinking of real estate business under the influence of policies.

Community value-added services — the Group also provides 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 assisting 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 shops. Revenue from community value-added services provided by the Group was approximately RMB59.2 million, representing a decrease of 5.1% as compared to that of approximately RMB62.4 million for the corresponding period in 2021, which was mainly attributable to the stable customer consumption sentiment under the influence of domestic and foreign economies.

City services — the Group can provide a wide range of city services, which mainly include (i) rail transit sanitation services; (ii) city environmental sanitation; (iii) waste sorting and treatment; (iv) installation of road facilities; (v) landscaping project; (vi) old communities renovation; and (vii) setting up smart block construction, etc. During the Reporting Period, the Group's revenue from the city services was approximately RMB9.7 million, accounting for 2.6% of the total revenue.

II. OUTLOOK AND STRATEGY

The Group is committed to becoming a better life and smart city service provider, and has always adhered to the original intention of providing customers with “satisfaction + surprise” and worked hard to move forward. In the second half of the year, the Group shall continue to improve its product strength, organizational strength, operational strength, digital science strength and brand strength to ensure service standardization, product standardization, product branding and brand value. The Group shall adhere to the bottom line of safety in projects, the property owner and the employees, the bottom line of providing services with quality corresponding to price and of providing the best price, the bottom line of standardization of service products, the bottom line of the performance of employees and the bottom line of business performance. Efforts will be made to expand the non-residential property and city services business lines of horizontally, gradually realize the three pillars of “Joyful Living” (悦生活) (for residential properties), “Joyful Commercial Property Management” (悦商管) (for non-residential properties) and “Joyful City Service” (悦城服) (for city service). The vertical industry sector will be deeply cultivated and incubated, and realize the service ecology with the characteristics of the Group with people as the core.

Under the clear strategic layout of the Group, it will be able to continue to increase its market capitalization by rapidly expanding its scale, securing contracted GFA as well as expanding the portion of the GFA from third party property developers, the portion of non-residential properties and the scale of city services, and thereby calmly responding to the intensive competition in the capital market and generating returns to the Shareholders, customers and employees of the Company.

III. FINANCIAL REVIEW

Revenue

The Group's revenue was mainly generated from four major businesses: (i) property management services; (ii) value-added services to non-property owners; (iii) community value-added services; and (iv) city services. During the Reporting Period, the Group's revenue was approximately RMB372.0 million, representing a decrease of 6.4% as compared to approximately RMB397.4 million for the corresponding period in 2021.

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

	Six months ended June 30,			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Property management services	224,302	60.3	162,490	40.9
Value-added services to non-property owners	78,798	21.2	172,449	43.4
Community value-added services	59,220	15.9	62,418	15.7
City services	9,698	2.6	—	—
Total	372,018	100.0	397,357	100.0

Property management services

During the Reporting Period, the Group's revenue from the provision of property management services amounted to approximately RMB224.3 million, representing an increase of 38.0% as compared to approximately RMB162.5 million for the corresponding period in 2021, 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 Reporting Period, the Group's revenue from the provision of value-added services to non-property owners amounted to approximately RMB78.8 million, representing a decrease of 54.3% as compared to approximately RMB172.4 million for the corresponding period in 2021. The decrease in revenue from value-added services to non-property owners was due to the shrinking of real estate business under the influence of policies.

Community value-added services

During the Reporting Period, the Group's revenue from the provision of community value-added services amounted to approximately RMB59.2 million, representing a decrease of 5.1% as compared to approximately RMB62.4 million for the corresponding period in 2021, which was mainly attributable to the stable customer consumption sentiment under the influence of domestic and foreign economies.

City services

At the end of 2021, the Group has strategically cooperated with Zhengzhou Rail Transit Real Estate Co., Ltd. (鄭州軌道交通置業有限公司) and started a new journey of urban services in 2022, gradually developing rail transit sanitation and urban services. During the Reporting Period, the Group's revenue from the city services amounted to approximately RMB9.7 million.

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 Reporting Period, the Group's cost of sales was approximately RMB266.3 million, representing a decrease of approximately 6.5% as compared to approximately RMB284.9 million for the corresponding period in 2021. The decrease in cost of sales was mainly in line with the decrease in sales.

Gross profit and gross profit margin

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

	Six months ended June 30,			
	2022		2021	
	Gross profit	Gross profit	Gross profit	Gross profit
	RMB'000	margin	RMB'000	margin
		%		%
Property management services	52,282	23.3	35,451	21.8
Value-added services to non-property owners	29,298	37.2	56,475	32.7
Community value-added services	23,169	39.1	20,491	32.8
City services	975	10.1	–	–
Total	105,724	28.4	112,417	28.3

During the Reporting Period, the Group's gross profit margin was 28.4%, representing an increase of 0.1% as compared to 28.3% for the corresponding period in 2021, which was mainly due to the Group's effective cost control.

The gross profit margin of property management services was 23.3%, representing an increase from 21.8% for the corresponding period in 2021, which was mainly because the decrease in energy

consumption and labor cost of facilities and equipment through scientific and technological means, and the scale effect brought by the Company's focus on cities, property portfolios and the scale effect.

The gross profit margin of value-added services to non-property owners was 37.2%, representing an increase from 32.7% for the corresponding period in 2021, which was mainly due to the increased launch of primary market real estate agency business by third-party property developers and consulting business, with a slight increase in gross profit.

The gross profit margin of community value-added services was 39.1%, representing an increase from 32.8% for the corresponding period in 2021, which was mainly due to the improvement of the business capacity for the sale of community merchandise and effective cost control. On the other hand, the development of cleaning business at the pre-delivery stage allows for the repeated deployment of staff and hence saving costs.

Other income

During the Reporting Period, the Group's other income amounted to approximately RMB6.7 million, representing an increase of 10.4% as compared to approximately RMB6.0 million for the corresponding period in 2021. The increase was mainly due to the receipt of government subsidies.

Selling and marketing expenses

During the Reporting Period, the Group's selling and marketing expenses amounted to approximately RMB6.2 million, representing an increase of 14.2% as compared to approximately RMB5.4 million for the corresponding period in 2021. The increase in selling and marketing expenses was mainly due to the increase in the Group's employee benefit expenses and labor costs as well as travelling and entertainment expenses, which were caused by the further expansion of the Group's business.

Administrative expenses

During the Reporting Period, the Group's administrative expenses amounted to approximately RMB22.7 million, representing a decrease of 22.2% as compared to approximately RMB29.2 million for the corresponding period in 2021, mainly due to the one-off nature of the listing expenses of the Group incurred in the corresponding period in 2021, and the implementation of sound cost control measures for the enhancement of the Group's operational efficiency.

Income tax expenses

During the Reporting Period, the Group's income tax expenses amounted to approximately RMB12.9 million, representing a decrease of 35.9% as compared to approximately RMB20.0 million for the corresponding period in 2021. The decrease in income tax expenses was mainly due to the reduction in national tax preference and profit before tax.

Profit

During the Reporting Period, the Group's profit amounted to approximately RMB56.7 million, representing an increase of 3.5% as compared to that of approximately RMB54.8 million for the corresponding period in 2021. Net profit margin was 15.2%, representing an increase of 1.4% from 13.8% for the corresponding period in 2021. Profit for the Reporting Period attributable to owners

of the Company was approximately RMB49.5 million, representing a decrease of 3.6% as compared to that of approximately RMB51.3 million for the corresponding period in 2021.

Liquidity, reserves and capital structure

The Group maintained a strong financial position and the Group has sufficient capital during the Reporting Period. The Group's cash and cash equivalents were mostly denominated in RMB and amounted to RMB513.4 million, representing a slight decrease from RMB540.8 million as at December 31, 2021. The Group's current ratio (current assets divided by current liabilities) as at June 30, 2022 was 2.5, representing an increase from 2.4 as at December 31, 2021. The asset-liability ratio (total liabilities divided by total assets) as at June 30, 2022 was 37.0%, representing a decrease from 38.2% as at December 31, 2021.

Gearing ratio is total borrowings divided by total equity. It is calculated as the sum of long-term and short-term interest-bearing bank loans and other loans as at the corresponding dates divided by total equity as at the same dates. As at June 30, 2022, the Group did not have any bank borrowings and the gearing ratio was nil.

The Group actively reviews and manages its capital structure on a regular basis and strikes a balance between maintaining 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 and prepayments

As at June 30, 2022, trade and other receivables and prepayments amounted to RMB525.6 million, representing an increase of 8.1% from RMB486.4 million as at December 31, 2021, which was mainly attributable to the slight decrease in the collection rate of the Group's receivables due to the objective economic impact of COVID-19.

Trade and other payables

As at June 30, 2022, trade and other payables remained relatively stable at RMB248.7 million and RMB250.0 million as at December 31, 2021 and June 30, 2022, respectively.

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 most transactions. Any depreciation of RMB would adversely affect the value of any dividends paid by the Group to Shareholders outside the PRC. 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.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended June 30, 2022.

PLEDGE OF ASSETS

As at June 30, 2022, the Group did not provide mortgage nor guarantees for loans.

CONTINGENT LIABILITIES

As at June 30, 2022, the Group did not have any material contingent liabilities and capital commitments.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures.

On September 30, 2021, the Group, Xi'an Lifeng Property Management Co., Ltd. (西安立豐物業管理有限公司) (“**Xi'an Lifeng Property**”), the then 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 Xi'an Lifeng Property by equity transfer from its existing shareholders (the “**Investment**”). The total consideration for the Investment is RMB164.07 million. As of June 30, 2022, the amount of the Investment paid by the Group was approximately RMB65.6 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 (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). For details of the Investment, please refer to the announcements of the Company dated September 30, 2021 and November 12, 2021, respectively.

SUPPLEMENTAL SALES AGENCY SERVICES FRAMEWORK AGREEMENT

As disclosed in the prospectus of the Company dated June 29, 2021 (the “**Prospectus**”), on June 17, 2021, the Group and Beijing Tongdao Shenghe Investment Co., Ltd. (“**Beijing Tongdao**”) (for itself and on behalf of its subsidiaries and associates) (collectively, “**Beijing Tongdao Group**”) entered into the sales agency services framework agreement, pursuant to which the Group agreed to provide the sales agency services to the Beijing Tongdao Group, being sales agency services for first-hand properties and unsold parking spaces, including but not limited to consulting services and sales events organization services, on an exclusive and sole basis for some of the property projects developed by the Beijing Tongdao Group.

On April 21, 2022, the Company and Beijing Tongdao entered into 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. At the annual general meeting held on June 30, 2022, the independent shareholders of the Company approved the entering into of the supplemental sales agency services framework agreement.

Beijing Tongdao is beneficially and wholly owned by Mr. Song Gewei, the ultimate controlling shareholder of the Company. Therefore, Beijing Tongdao is a connected person of the Company under Chapter 14A of the Listing Rules, and the transactions contemplated under the supplemental sales agency services framework agreement constitutes continuing connected transactions of the Company. For details of the supplemental sales agency services framework agreement, please refer to the announcement of the Company dated April 21, 2022 and the circular of the Company dated June 15, 2022.

SIGNIFICANT INVESTMENTS

During the Reporting Period, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL 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. As at the date of this announcement, the Group did not have any other future plans for material investments.

EMPLOYEE AND REMUNERATION POLICY

As at June 30, 2022, the Group had a total of 1,720 employees (December 31, 2021: 1,803). The Group's Employee benefit expenses (including Director's emoluments) amounted to RMB80.6 million (year ended December 31, 2021: RMB 191.9 million).

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 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 June 30, 2022:

Purposes	Percentage of total amount (approximate)	Net proceeds as disclosed in the Prospectus (HK\$ million)	Unutilised amount as at December 31, 2021 (HK\$ million)	Actual use of proceeds for the Reporting Period (HK\$ million)	Unutilised amount as at June 30, 2022 (HK\$ million)	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	326.6	0	326.6	By December 2024
Invest in our intelligent operational and internal management systems to improve service quality and customer experience	10%	62.9	57.4	1.3	56.1	By December 2024
Enrich and expand our service and product offerings to develop our diverse business line	15%	94.3	82.0	9.9	72.1	By December 2024
Working capital and other general corporate purposes	10%	62.9	48.7	0	48.7	By December 2024
Total	100%	628.9	514.7	11.2	503.5	

As at the date of this announcement, the proceeds were deposited in short-term interest-bearing bank accounts with domestic and overseas licensed financial institutions and will continue to be used in accordance with the purposes set out in the Prospectus and are expected to be used up by December 2024.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, there were no material events after the Reporting Period.

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 Group has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules as its code of governance. During the Reporting Period, the Company has complied with all applicable principles and 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 as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code for dealing in the securities of the Group by the Directors. After specific enquiries made to all Directors, Directors have confirmed their compliance with the required standard set out in the Model Code during the Reporting Period.

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

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

AUDIT COMMITTEE

The Board has established an audit committee (the “**Audit Committee**”) in accordance with the CG Code 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 the unaudited interim condensed consolidated results of the Group for the six months ended June 30, 2022 together with the Board, and confirmed that it has complied all applicable accounting principles, standards and requirements, and made sufficient disclosures. The Audit Committee has also discussed audit and financial reporting matters. The interim financial information for the six months ended June 30, 2022 have not been audited, but have been reviewed by the auditor of the Group, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS AND 2022 INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.kqysh.com.cn). The interim report of the Company for the six months ended June 30, 2022 will be dispatched to the Shareholders and published on the above websites in due course.

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

Hong Kong, August 25, 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.