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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6093)**

**ANNOUNCEMENT OF THE INTERIM RESULTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2023**

**FINANCIAL HIGHLIGHTS**

- Total revenue of the Group for the six months ended 30 June 2023 increased by 39.6% to approximately RMB646.8 million from approximately RMB463.3 million for the six months ended 30 June 2022.
- Gross profit of the Group for the six months ended 30 June 2023 increased by 32.0% to approximately RMB199.1 million from approximately RMB150.8 million for the six months ended 30 June 2022.
- Gross profit margin decreased to 30.8% for the six months ended 30 June 2023 from 32.6% for the six months ended 30 June 2022.
- Profit after income tax for the six months ended 30 June 2023 increased by approximately RMB6.1 million, or 9.1% from approximately RMB67.2 million for the six months ended 30 June 2022 to approximately RMB73.3 million for the six months ended 30 June 2023. Net profit margin decreased to approximately 11.3% for the six months ended 30 June 2023 compared to approximately 14.5% for the six months ended 30 June 2022.
- For the six months ended 30 June 2023, earnings per share attributable to equity shareholders of the Company increased from approximately RMB7.92 cents for the six months ended 30 June 2022 to approximately RMB9.68 cents for the six months ended 30 June 2023.
- For the six months ended 30 June 2023, the Group's total contracted GFA increased by approximately 18.0% from approximately 54.0 million sq.m. for the six months ended 30 June 2022 to approximately 63.7 million sq.m. for the six months ended 30 June 2023; the total GFA under management increased by approximately 29.0% from 43.1 million sq.m. for the six months ended 30 June 2022 to approximately 55.6 million sq.m. for the six months ended 30 June 2023.

The board of directors (the “**Board**” and “**Directors**” respectively) of Hevol Services Group Co. Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2023 (the “**Reporting Period**”), together with the comparative figures for the corresponding period of 2022, as follows, the results have not been audited:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 June 2023*

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
<b>Revenue</b>	4	<b>646,848</b>	463,275
Cost of sales		<u>(447,781)</u>	<u>(312,442)</u>
<b>Gross profit</b>		<b>199,067</b>	150,833
Other income and gains	5	<b>3,446</b>	4,430
Expected credit loss (“ECL”) allowance on trade and other receivables		<b>(23,559)</b>	(8,122)
Administrative expenses		<b>(92,921)</b>	(66,407)
Finance costs	6(a)	<b>(229)</b>	(275)
<b>Profit before income tax</b>	6(b)	<b>85,804</b>	80,459
Income tax expense	7	<b>(12,530)</b>	(13,280)
<b>Profit for the period</b>		<b><u>73,274</u></b>	<u>67,179</u>
<b>Other comprehensive income for the period, net of nil tax</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation of the Company’s financial statements into its presentation currency		<b>(290)</b>	1,127
<b>Total comprehensive income for the period</b>		<b><u>72,984</u></b>	<u>68,306</u>
<b>Profit for the period attributable to:</b>			
Equity shareholders of the Company		<b>54,211</b>	44,348
Non-controlling interests		<b>19,063</b>	22,831
		<b><u>73,274</u></b>	<u>67,179</u>
<b>Total comprehensive income for the period attributable to:</b>			
Equity shareholders of the Company		<b>53,921</b>	45,475
Non-controlling interests		<b>19,063</b>	22,831
		<b><u>72,984</u></b>	<u>68,306</u>
<b>Earnings per share attributable to equity shareholders of the Company (expressed in RMB cents)</b>			
Basic and diluted	9	<b>9.68</b>	7.92

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2023*

		As at <b>30 June 2023</b>	As at 31 December 2022
	<i>Notes</i>	<b>RMB'000</b> <b>(Unaudited)</b>	<b>RMB'000</b> <b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	<b>22,799</b>	25,754
Intangible assets		<b>119,090</b>	127,496
Investment properties		<b>39,714</b>	40,483
Goodwill		<b>481,533</b>	481,533
Deferred tax assets		<b>34,611</b>	29,460
		<u><b>697,747</b></u>	<u>704,726</u>
<b>Current assets</b>			
Inventories		<b>1,719</b>	1,619
Trade and other receivables	<i>11</i>	<b>716,073</b>	643,677
Restricted bank deposits		–	7,319
Bank balances and cash		<b>256,568</b>	275,922
		<u><b>974,360</b></u>	<u>928,537</u>
<b>Current liabilities</b>			
Bank Borrowings		<b>12,000</b>	5,000
Contract liabilities		<b>291,585</b>	295,689
Trade and other payables	<i>12</i>	<b>548,631</b>	554,088
Lease liabilities		<b>3,560</b>	3,767
Income tax liabilities		<b>8,922</b>	9,138
		<u><b>864,698</b></u>	<u>867,682</u>
<b>Net current assets</b>		<u><b>109,662</b></u>	<u>60,855</u>
<b>Total assets less current liabilities</b>		<u><b>807,409</b></u>	<u>765,581</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2023*

		As at <b>30 June 2023</b>	As at 31 December 2022
	<i>Note</i>	<b>RMB'000</b> <b>(Unaudited)</b>	<b>RMB'000</b> <b>(Audited)</b>
<b>Non-current liabilities</b>			
Bank borrowings		<b>3,500</b>	4,000
Other payables		<b>20,000</b>	20,000
Lease liabilities		<b>2,630</b>	3,324
Deferred tax liabilities		<b>25,383</b>	26,789
		<u><b>51,513</b></u>	<u>54,113</u>
<b>Net assets</b>		<u><b>755,896</b></u>	<u>711,468</u>
<b>EQUITY</b>			
Share capital	<i>13</i>	<b>38</b>	38
Reserves		<u><b>668,542</b></u>	<u>614,621</u>
<b>Equity attributable to equity shareholders of the Company</b>			
		<b>668,580</b>	614,659
Non-controlling interests		<u><b>87,316</b></u>	<u>96,809</u>
<b>Total equity</b>		<u><b>755,896</b></u>	<u>711,468</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

## 1. GENERAL INFORMATION

Hevol Services Group Co. Limited (the “**Company**”) was incorporated in the Cayman Islands on 28 May 2018 as an exempted company with limited liability under the Companies Law, Cap 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

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

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

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

The functional currency of the Company is Hong Kong Dollars, while the interim condensed consolidated financial statements (the “**Interim Financial Statements**”) are represented in Renminbi (“**RMB**”), as in the opinion of the directors of the Company, it presents more relevant information to the management who monitors the performance and financial position of the Group based on RMB. All values are rounded to the nearest thousand (“**RMB’000**”), unless otherwise stated.

The Interim Financial statements for the six months ended 30 June 2023 were approved for issue by the board of directors on 31 August 2023 and have not been audited.

## 2. BASIS OF PREPARATION

These Interim Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards (“**IFRSs**”) which includes all applicable individual, International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “**IASB**”) and applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). These Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2022.

The Interim Financial Statements have been prepared on the historical cost basis.

The Group has not early adopted any IFRSs that has been issued but is not yet effective. The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2022 except for the adoption of the new or amended IFRSs as set out below:

### (a) New or amended IFRSs adopted by the Group as at 1 January 2023

In the current period, the Group has applied for the first time the following amended IFRSs, which are relevant to the Group’s operations and effective for the Group’s Interim Financial Statements for the annual period beginning on 1 January 2023.

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

None of these amended IFRSs have material impact on the Group’s results and financial position for the current and prior periods. The Group has not applied any new or amended IFRSs that is not yet effective for the current accounting period.

(b) **Issued but not yet effective IFRSs**

The following amended IFRSs, potentially relevant to the Group's Interim Financial Statements, have been issued but are not yet effective, and have not been adopted early by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to IFRS 10 and IAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>1</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current (the "2020 Amendments") <sup>2,3</sup>
Amendments to IAS 1	Non-current Liabilities with Covenants (the "2022 Amendments") <sup>2</sup>
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback <sup>2</sup>

<sup>1</sup> The amendments shall be applied prospectively to the sales or contribution of assets occurring in annual periods beginning on or after a date to be determined

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024

<sup>3</sup> As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements-Classification by the borrower of Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group does not anticipate that the adoption of these amendments will have material impact on the Interim Financial Statements.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

In preparing the Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

**4. REVENUE AND SEGMENT INFORMATION**

The Group is principally engaged in the provision of property management services and related valued-added services in the PRC. This operating segment has been identified on the basis of internal management reports reviewed by the chief operating decision-maker (the "CODM"), being the executive directors of the Company. The CODM reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regard that there is only one segment which is used to make strategic decisions.

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue from external customers and recognised over time</b>		
Property management services	<b>492,628</b>	350,656
Community value-added services	<b>109,696</b>	72,644
Value-added services to non-property owners	<b>40,136</b>	39,584
	<b>642,460</b>	462,884
<b>Leasing income (not within the scope of IFRS 15)</b>		
Community value-added services	<b>4,388</b>	391
	<b>646,848</b>	463,275

## Geographical information

The major operating entities of the Group are domiciled in the PRC. As at 30 June 2023 and 31 December 2022, substantially all of the non-current assets (other than deferred tax assets) of the Group and the location of the operation to which intangible assets and goodwill allocated were located in the PRC.

## Information about major customers

For the six months ended 30 June 2023, revenue from companies controlled by the Controlling Shareholder contributed 3.3% (six months ended 30 June 2022: 5.8%) of the Group's revenue. The Group had a large number of customers and none of whom contributed 10% or more of the Group's revenue for the period ended 30 June 2023 and 2022.

## 5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	229	777
Investment income	3	54
Government subsidy income	2,043	2,681
Sundry income	1,130	918
Gain on disposal of property, plant and equipment	41	–
	<u>3,446</u>	<u>4,430</u>

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>(a) Finance costs</b>		
Interest expenses on lease liabilities	55	189
Finance costs on interest-bearing bank borrowings	174	86
	<u>229</u>	<u>275</u>
<b>(b) Other items</b>		
Amortisation of intangible assets	8,406	6,121
Depreciation of property, plant and equipment		
– Owned assets	2,532	1,563
– Right-of-use assets	2,494	1,505
Depreciation of investment properties	769	531
Legal and professional fees	6,182	2,538
(Gain)/loss on disposal of property, plant and equipment	(41)	2
	<u>(41)</u>	<u>2</u>

## 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<b>Current tax – PRC enterprise income tax</b>		
Current period	<u>17,022</u>	<u>15,463</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(4,492)</u>	<u>(2,183)</u>
<b>Total income tax expense</b>	<u><u>12,530</u></u>	<u><u>13,280</u></u>

Notes:

### (A) CAYMAN ISLANDS INCOME TAX

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and accordingly, is exempted from Cayman Islands income tax.

### (B) BVI INCOME TAX

Pursuant to the relevant rules and regulations of BVI, the Group is not subject to any income tax in BVI for the six months ended 30 June 2023 and 2022.

### (C) HONG KONG PROFITS TAX

The provision for Hong Kong profits tax for the six months ended 30 June 2023 and 2022 are calculated at 16.5% of the estimated assessable profits for the periods. For the six months ended 30 June 2023 and 2022, a subsidiary of the Group is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying entities are taxed at 8.25%, and the profits above HK\$2 million are taxed at 16.5%.

### (D) PRC ENTERPRISE INCOME TAX

The income tax provision of certain PRC entities of the Group has been calculated at the statutory tax rate of 25% on the estimated assessable profits for the six months ended 30 June 2023 and 2022, based on the existing legislation, interpretations and practices in respect thereof.

The preferential income tax rate applicable to certain of the Group's PRC entities within the scope of the China's Western Development Program and Hainan Free Trade Port Program was 15% for the six months ended 30 June 2023 and 2022.

Pursuant to the relevant laws and regulation in the PRC, certain of the Group's PRC entities which are qualified as small low-profit enterprises enjoyed a preferential tax rate of 20% for the six months ended 30 June 2023 and 2022. In addition, in accordance with the "Notice on Preferential Income Tax Policies Applicable to Small Low-profit Enterprises", the small and low-profit enterprises are entitled to a tax concession for 75% and 50% of its taxable income for the annual taxable income of less than RMB1,000,000 and the portion that exceeds RMB1,000,000 but does not exceed RMB3,000,000 (inclusive) for the six months ended 30 June 2023 and 2022, respectively.

### (E) PRC WITHHOLDING INCOME TAX

According to the relevant laws and regulations in the PRC, the Group is also liable to a 10% withholding tax on dividends to be distributed from the Group's foreign-invested enterprises in the PRC in respect of its profits generated from 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

## 8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2023 and 2022.

## 9. EARNINGS PER SHARE

### (a) Basic earnings per share

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

	Six months ended 30 June	
	2023 (Unaudited)	2022 (Unaudited)
Profit attributable to equity shareholders of the Company (RMB'000)	54,211	44,348
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (thousands)	<u>560,000</u>	<u>560,000</u>
<b>Basic earnings per share (expressed in RMB cents)</b>	<b><u>9.68</u></b>	<b><u>7.92</u></b>

### (b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2023 and 2022 equals the basic earnings per share as there were no dilutive potential ordinary shares in existence during the periods.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group had additions to property, plant and equipment with a cost of RMB2,096,000 (six months ended 30 June 2022: RMB254,000) and addition of RMBNil (six months ended 30 June 2022: RMB188,000) through the acquisition of subsidiaries. Items of property, plant and equipment with total carrying amount of approximately RMB25,000 were disposed of during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB540,000).

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

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Office premises	4,363	5,059
Heating facility	377	754
Staff quarters	<u>72</u>	<u>790</u>
	<b><u>4,812</u></b>	<b><u>6,603</u></b>

During the six months ended 30 June 2023, the total additions to right-of-use assets included in property, plant and equipment amounted to RMB703,000 (six months ended 30 June 2022: RMBNil).

## 11. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
<b>Trade receivables</b>	(a)		
– Third parties		514,162	382,025
– Related parties		<u>66,245</u>	<u>106,845</u>
		<u>580,407</u>	<u>488,870</u>
Less: ECL allowance on trade receivables		<u>(90,790)</u>	<u>(67,766)</u>
		489,617	421,104
<b>Other receivables</b>			
Deposits and other receivables		81,319	88,319
Other deposits		100,808	109,693
Payment on behalf of property owners		14,565	13,459
Advances to employees		<u>22,180</u>	<u>4,111</u>
		218,872	215,582
Less: ECL allowance on other receivables		<u>(2,564)</u>	<u>(2,029)</u>
		216,308	213,553
Prepayments		<u>10,148</u>	<u>9,020</u>
		<u>226,456</u>	<u>222,573</u>
		<u><u>716,073</u></u>	<u><u>643,677</u></u>

(a) **Trade receivables**

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

Property management services income are received in accordance with the term of the relevant property service agreements. Service income is due for payment upon rendering of services.

The ageing analysis of trade receivables based on invoice date, net of ECL allowance, is as follows:

	<b>As at 30 June 2023 RMB'000 (Unaudited)</b>	<b>As at 31 December 2022 RMB'000 (Audited)</b>
0 – 90 days	112,489	99,294
91 – 180 days	83,123	57,481
181 – 365 days	97,151	97,460
1 to 2 years	108,123	104,675
2 to 3 years	43,448	43,917
Over 3 years	45,283	18,277
	<u>489,617</u>	<u>421,104</u>

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

	<b>As at 30 June 2023 RMB'000 (Unaudited)</b>	<b>As at 31 December 2022 RMB'000 (Audited)</b>
Balance at the beginning of the period/year	67,766	19,523
ECL allowance recognised	<u>23,024</u>	<u>48,243</u>
Balance at the end of the period/year	<u>90,790</u>	<u>67,766</u>

## 12. TRADE AND OTHER PAYABLES

	Notes	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
<b>Trade payables</b>			
– Third parties	(a)	122,910	123,448
<b>Other payables</b>			
Accrued charges and other payables		191,605	169,650
Consideration payables	(ii)	52,603	59,138
Financial guarantees issued	(i)	5,227	18,439
Renovation deposits collected from property owners		87,726	75,074
Amounts collected on behalf of property owners		31,048	35,362
Other tax liabilities		30,266	25,975
Staff costs and welfare accruals		47,246	67,002
		445,721	450,640
Less non-current portion:			
Consideration payable	(ii)	(20,000)	(20,000)
		425,721	430,640
		548,631	554,088

### Notes:

- (i) In prior years, Guizhou Huaxin Financing Guarantee Co., Ltd (“**Guizhou Huaxin**”), an independent third party, which was engaged in provision of financial services, had entered into certain financial guarantee contracts to provide financial guarantees to independent third parties borrowers (“**Independent Borrower**”) in relation to the bank borrowings obtained by the Independent Borrowers from certain PRC banks. A subsidiary of the Company, Guiyang Xinglong Property Management Co., Ltd. (“**Guiyang Xinglong**”), had also entered into financial guarantee contracts with Guizhou Huaxin and the PRC banks to provide financial guarantees to Guizhou Huaxin. Pursuant to the terms of the above guarantees, upon default of bank borrowings by the Independent Borrowers, Guizhou Huaxin and Guiyang Xinglong are jointly and severally liable for the repayment of the outstanding principal together with accrued interest and penalties (the “**Default Payment**”) owed by the Independent Borrowers to the PRC banks. The guarantees periods start from the date of grant of the bank borrowings to expiry of the financial guarantee contracts. Pursuant to the sale and purchase agreement of acquisition of Guiyang Xinlong, the seller had undertaken to indemnify the Group against any losses arising from the litigations and claims against Guiyang Xinlong which had been incurred before the acquisition date. As at 30 June 2023, the maximum exposure of the financial guarantee contracts is RMB5,227,000 (31 December 2022: RMB18,439,000). According to the final court orders issued during the year ended 31 December 2022, the Group had to undertake the repayment of the total amount of RMB21,362,000 to the PRC banks in respect of these financial guarantee contracts. The seller of Guiyang Xinlong has indemnified the Group for the total loss of RMB21,362,000 undertaken by the Group offsetting this amount against the outstanding consideration payable to the seller. As at 30 June 2023, the financial liabilities relating to the remaining financial guarantee contracts of RMB5,227,000 (31 December 2022: RMB18,439,000) was recognised in the condensed consolidated statement of financial position.

As at 31 December 2022, restricted bank deposits include balances of RMB6,794,000 which had been frozen by the PRC court pending the outcome of the legal proceedings initiated by PRC banks relating to certain bank borrowing contracts which related to the financial guarantees issued by Guiyang Xinglong. The frozen bank balances might not be used by the Group until the litigations are resolved. As at 30 June 2023, such frozen bank deposits have been released.

- (ii) As at 30 June 2023, the consideration payables in respect the acquisition of Chongqing Xinlongxin and Guiyang Xinlong amounted to RMB43,000,000 (31 December 2022: RMB43,000,000) and RMB9,603,000 (31 December 2022: RMB16,138,000) respectively. Out of these outstanding balances as at 30 June 2023, the amount of RMB32,603,000 is expected to be settled by 31 December 2023 and the amount of RMB20,000,000 is expected to be settled by 31 December 2024.

(a) **Trade payables**

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

	<b>As at 30 June 2023 RMB'000 (Unaudited)</b>	<b>As at 31 December 2022 RMB'000 (Audited)</b>
0 – 30 days	114,535	43,522
31 – 180 days	1,013	49,561
181 – 365 days	5,387	20,339
Over 1 year	1,975	10,026
	<u>122,910</u>	<u>123,448</u>

**13. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Nominal value of shares United States dollars ("US\$")</b>
<b>Authorised:</b>		
<b>Ordinary shares of the Company:</b>		
Ordinary shares at 1 January 2022 (audited), 31 December 2022 (audited), 1 January 2023 (audited) and 30 June 2023 (unaudited)	<u>5,000,000,000</u>	<u>50,000</u>

	<b>Number of shares</b>	<b>Nominal value of shares US\$</b>	<b>Equivalent nominal value of shares RMB'000</b>
<b>Issued and fully paid:</b>			
<b>Ordinary shares of the Company:</b>			
As at 1 January 2022 (audited), 31 December 2022 (audited), 1 January 2023 (audited) and 30 June 2023 (unaudited)	<u>560,000,000</u>	<u>5,600</u>	<u>38</u>

## 14. SHARE OPTION SCHEME

On 14 June 2019 (the “**Adoption Date**”), the Company adopted a share option scheme (the “**Share Option Scheme**”). The purpose of the Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage the selected participants to work towards enhancing the value of the Company and the shareholders as a whole.

The Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless terminated earlier by the shareholders in general meeting.

The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares in issue.

No option of the Company was granted to the Company’s employees and other eligible participants since the Adoption Date and up to the date of this Interim Financial Information.

## 15. COMMITMENTS

### (a) Lease commitments

#### *As lessor*

At the reporting date, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	<b>As at 30 June 2023 RMB’000 (Unaudited)</b>	<b>As at 31 December 2022 RMB’000 (Audited)</b>
Within one year	<b>686</b>	686
After one year but within two years	<b>686</b>	686
After two years but within three years	<b>686</b>	686
After three years but within four years	–	343
	<b>2,058</b>	<b>2,401</b>

#### *As lessee*

As at 30 June 2023 and 31 December 2022, the Group had no lease commitments for short-term leases.

## 16. MATERIAL RELATED PARTY TRANSACTIONS

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

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<b>Companies controlled by Mr. Liu</b>		
Provision of property management and value-added services	<u>21,195</u>	<u>26,685</u>

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

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, bonus and allowances	2,117	1,875
Retirement benefit scheme contributions	<u>230</u>	<u>204</u>
	<u><u>2,347</u></u>	<u><u>2,079</u></u>

## CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors of Hevol Services Group Co. Limited, I am pleased to present the interim results of the Company for the six months ended 30 June 2023.

The Company has been listed in the capital market of Hong Kong since 12 July 2019. During the 4 years since its listing, under the concerted efforts of the management and all employees, the Group has adhered to its original aspiration and kept its mission firmly in mind, achieved the goal of high-growth and high-quality corporate development, wrote a brilliant and splendid chapter of Hevol Services, and achieved rapid improvement in terms of management scale, operating indicators and operating efficiency, fully achieving the targets set out in the first three-year development plan from 2020 to 2022.

For the six months ended 30 June 2023, the Group achieved revenue of approximately RMB646.8 million, representing an increase of approximately 39.6% over the same period in 2022; gross profit was approximately RMB199.1 million, representing an increase of approximately 32.0% over the same period in 2022. Profit after tax amounted to approximately RMB73.3 million, representing an increase of approximately 9.1% over the same period in 2022. Earnings per share attributable to shareholders amounted to approximately RMB9.68 cents, compared to approximately RMB7.92 cents over the same period in 2022. The Group's profitability continued to improve.

For the six months ended 30 June 2023, the Group managed 329 property management projects across 41 cities in 17 provinces and municipalities, with a total GFA under management of approximately 55.6 million sq.m., representing an increase of approximately 29.0% as compared to approximately 43.1 million sq.m. over the same period in 2022; the total contracted GFA reached approximately 63.7 million sq.m., representing an increase of approximately 18.0% as compared to approximately 54.0 million sq.m. over the same period in 2022.

At the beginning of 2023, the Group formulated a three-year development plan from 2023 to 2025, which specified the direction of development. As the first year of the second three-year development plan, with the confidence and determination to win, the Group will take the path of high-quality development of property services. Under the guidance of the strategic policy of the "four adherences", that is, "adherence to the three-year development plan, adherence of service quality as the foundation, adherence to the fully entrusted development path and adherence to the principle of benefit sharing", the Group will strive to win the "three major battles of quality, expansion and value-adding", and promote the transformation and upgrading in terms of the development quality of the Group, so as to achieve stable and long-term development.

## **BUILDING THE FOUNDATION WITH SERVICE QUALITY**

Quality is the lifeline that property management safeguards. The Group has always interpreted the concept of “living a happy life with Hevol” with reference to service quality. In the first half of the year, the Group deepened the classification of service standards, and continuously upgraded the five-enjoyment service system of “harmony, happiness, respect, grandness and wisdom”, taking into account the current management status; at the same time, it strengthened quality supervision, strictly implemented the management measures for property service quality inspection, formulated the “five-level quality inspection system” and the “red and yellow card system”, clarified the service bottom line and safety bottom line, and consolidated the foundation of service quality with refined management and systematic supervision.

## **EXPANDING THE SCALE OF FULLY ENTRUSTED EXPANSION**

Fully entrusted expansion is an important impetus for the Group’s high growth. In the first half of the year, the Group continued to strengthen market development efforts to further unleash the potential of the market expansion team, and acquired nearly 40 expansion projects from property owners’ committees or third parties, and further sharpened the expansion team while opening up room for growth. On the basis of residential business, the Group gradually explored the non-residential sector, created diversified business forms, continuously improved its professional management capabilities in various segments, and continuously improved its market competitiveness with high-quality service quality and professional service standards, so as to provide a solid guarantee for the sustainable development of the Group.

## **GENERATING REVENUE THROUGH VALUE-ADDED SERVICES**

Through the business practice in recent years, community value-added services have transitioned from traditional space leasing and common area value-added services to service categories that better meet the needs of property owners, gradually developing businesses such as house rental and sales, home decoration, home care for the elderly and group travel. At the same time, we have built Hevol selected brand, established partnership with merchants in various regions, and added local specialty products to community retail and group purchase. The Group always focuses on the needs of life of property owners and provides them with considerate services, and therefore generating higher revenue for the Group.

However difficult it might seem, the challenge will be overcome. Under the guidance of the Group’s strategic policy of the “four adherences”, all employees will work together to promote the rapid and high-quality development of Hevol Services and share the benefits of corporate development.

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

**Liu Jiang**

*Chairman of the Board of Directors*

Hong Kong, 31 August 2023

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Overview

The Group is a renowned market player in the property management industry in China and has engaged in property management services for more than 21 years. The Group ranked 29th among the “2023 Top 100 Property Management Enterprises in China” by virtue of its comprehensive strength. Since 2015, the Group has been rated as one of the Top 100 Property Management Enterprises in China for consecutive years, with a comprehensive ranking rising from 85th originally to 29th currently, and the Group is considered as one of the Top 100 Property Management Enterprises in China with rapid development. In addition, the Group has been awarded many honours such as the China Top 100 Leading Property Management Enterprises in terms of Growth Potential in 2023, 2023 China Leading Property Management Enterprises in terms of Technological Capabilities, the TOP2 2023 China Listed Property Enterprises in terms of Growth Speed and the TOP5 2023 China Listed Property Enterprises in terms of Independent Development.

After 21 years of development and refinement, the Group has always adhered to the service concept of “living a happy life with Hevol”, and will enhance service quality based on the real life needs of property owners, make basic services and public management services more comprehensive and meticulous, and fully implement the “long-term quality principle” to create a comfortable and beautiful life scene for property owners.

As of 30 June 2023, the Group recorded revenue of approximately RMB646.8 million, representing an increase of approximately 39.6% compared to the same period in 2022; gross profit of approximately RMB199.1 million, representing an increase of approximately 32.0% compared to the same period in 2022; and gross profit margin of approximately 30.8%, representing a year-on-year decrease of approximately 1.8 percentage points. The Group recorded net profit after tax for the six months ended 30 June 2023 of approximately RMB73.3 million, representing an increase of approximately 9.1% compared to approximately RMB67.2 million for the corresponding period in 2022.

As of 30 June 2023, the Group provided property management services across 41 cities in China with a total contracted projects of 361 and a total contracted gross floor area (“GFA”) of approximately 63.7 million sq.m., representing an increase of approximately 18.0% as compared to approximately 54.0 million sq.m. in the same period in 2022. The total number of projects under management reached 329 and the total GFA under management reached approximately 55.6 million sq.m., representing an increase of approximately 29.0% as compared to approximately 43.1 million sq.m. in the same period in 2022. The Group is committed to independent development and has continued to expand its scale by various means by leveraging its excellent service quality and brand competitiveness since listing. As of 30 June 2023, 84.4% of GFA under management were from third-party property developers with approximately 47.0 million sq.m..

## **Property management services**

The Group provides a range of property management services to property owners, residents, and property developers, including security, cleaning, greening, gardening as well as repair and maintenance services. The Group's property management portfolio focuses on serving residential communities and also involves other types of properties, such as commercial properties, and government agencies, public construction projects such as schools and hospitals.

As of 30 June 2023, the revenue from property management services amounted to approximately RMB492.6 million, representing an increase of approximately RMB141.9 million or approximately 40.5% as compared to approximately RMB350.7 million in the same period in 2022. For the six months ended 30 June 2023, revenue generated from property management services, representing approximately 76.2% of the Group's total revenue for the period.

The Group always adheres to quality as the foundation, empowers business management with technology, and combines online systems and offline equipments to provide property owners with superior property service quality, and assist the Group in improving management efficiency. Through the application of digital technology to enhance convenience for property owners, property management staff can carry out business operations in real time by various terminal equipments at any time, making the life of property owners more convenient and efficient. Through the intelligent IOT platform, the efficiency of personnel inspection and quality control can be improved and accidents and disasters can be prevented, which allow property owners to live in a safer environment. With data analysis conducted by big data platform, the needs of property owners can be understood in a timely manner and potential issues can be identified, which helps the Group make more scientific and accurate decisions and continuously improves the property service experience, so as to create a comfortable, efficient and high-quality community living environment.

As at 30 June 2023, the Group managed 329 property management projects across 41 cities in China with a total GFA under management of approximately 55.6 million sq.m., representing an increase of approximately 29.0% as compared to 43.1 million sq.m. in the same period in 2022, mainly covering six regions in China including Northern China, Northeastern China, Eastern China, Central China, Southwestern China and Southern China.

In the first half of 2023, the Group achieved certain results in the fully entrusted market expansion. The Group continuously strengthened its market expansion efforts, expanded channels through various cooperation methods, and successfully established a presence in new cities such as Suzhou City in Jiangsu Province, Jiaxing City in Zhejiang Province, Wenchang City in Hainan Province and Zhumadian City in Henan Province through expansion in surrounding cities of existing projects, thereby expanding the Group's business presence. By improving customer satisfaction and service quality, the Group successfully retained existing customers and won the trust of more property owners, which not only contributed to the stabilisation of the Group's business foundation, but also provided strong support for the Group to further expand its market. The Group will continue to strengthen its efforts in market expansion to further expand its business scope, improve service quality and achieve a sustainable growth. In the face of market challenges and opportunities, the Group's market development team will continue to play a key role in creating greater value for the Group.

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

	Six months ended 30 June							
	2023				2022			
	Revenue generated from property management services		GFA under management		Revenue generated from property management services		GFA under management	
	(RMB'000)	(%)	('000 sq.m.)	(%)	(RMB'000)	(%)	('000 sq.m.)	(%)
Northern China <sup>(1)</sup>	59,954	12.2	5,519	9.9	51,326	14.6	5,446	12.6
Northeastern China <sup>(2)</sup>	21,672	4.4	2,658	4.8	21,218	6.0	2,661	6.2
Eastern China <sup>(3)</sup>	86,618	17.6	11,126	20.0	74,338	21.2	8,253	19.2
Central China <sup>(4)</sup>	7,420	1.5	685	1.2	6,564	1.9	633	1.5
Southwestern China <sup>(5)</sup>	273,074	55.4	31,729	57.1	159,400	45.5	22,666	52.6
Southern China <sup>(6)</sup>	43,890	8.9	3,899	7.0	37,810	10.8	3,436	7.9
Total	<u>492,628</u>	<u>100.0</u>	<u>55,616</u>	<u>100.0</u>	<u>350,656</u>	<u>100.0</u>	<u>43,095</u>	<u>100.0</u>

Notes:

- (1) "Northern China" includes Beijing, Tianjin, Tangshan and Hohhot.
- (2) "Northeastern China" includes Harbin, Shenyang, Panjin and Dandong.
- (3) "Eastern China" includes Shanghai, Hangzhou, Jiaxing, Suzhou, Kunshan, Jingjiang, Jiangyin, Taixing, Xinghua, Xuzhou, Xinyi, Huaian and Huangshan.
- (4) "Central China" includes Changsha, Yiyang, Yueyang, Huaihua and Zhumadian.
- (5) "Southwestern China" includes Chongqing, Chengdu, Neijiang, Guiyang, Zunyi, Qiannanzhou and Panzhou.
- (6) "Southern China" includes Dongguan, Zhongshan, Foshan, Jiangmen, Huizhou, Sanya, Lingshui and Wenchang.

The Group managed a diverse portfolio of properties, comprising primarily residential properties and to a lesser extent, non-residential properties. Non-residential properties include commercial properties and other types of public construction projects. The table below sets out the breakdowns of its: (i) revenue generated from property management services by type of properties; and (ii) total GFA under management by type of properties for the periods indicated:

	Six months ended 30 June							
	2023				2022			
	Revenue generated from property management services		GFA under management		Revenue generated from property management services		GFA under management	
	<i>RMB'000</i>	%	<i>'000 sq.m.</i>	%	<i>RMB'000</i>	%	<i>'000 sq.m.</i>	%
Residential properties	433,093	87.9	51,541	92.7	322,172	91.9	39,475	91.6
Non-residential properties	59,535	12.1	4,075	7.3	28,484	8.1	3,620	8.4
Total	<u>492,628</u>	<u>100.0</u>	<u>55,616</u>	<u>100.0</u>	<u>350,656</u>	<u>100.0</u>	<u>43,095</u>	<u>100.0</u>

The table below sets out the breakdowns: (i) revenue generated from property management services by type of property developer; and (ii) total GFA under management by type of property developer for the periods indicated:

	Six months ended 30 June							
	2023				2022			
	Revenue generated from property management services		GFA under management		Revenue generated from property management services		GFA under management	
	<i>(RMB'000)</i>	<i>(%)</i>	<i>('000 sq.m.)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>('000 sq.m.)</i>	<i>(%)</i>
Hevol Real Estate Group Limited ("Hevol Real Estate Group")	103,745	21.1	8,659	15.6	112,430	32.1	8,049	18.7
Other property developers	388,883	78.9	46,957	84.4	238,226	67.9	35,046	81.3
Total	<u>492,628</u>	<u>100.0</u>	<u>55,616</u>	<u>100.0</u>	<u>350,656</u>	<u>100.0</u>	<u>43,095</u>	<u>100.0</u>

## **Community value-added services**

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

In the first half of the year, the Group set up special incentives for innovative value-added services to stimulate business vitality. Focusing on the asset management needs of more and more property owners, the Group gradually provided real estate agents services and housing decoration and renovation services in various cities to achieve one-stop asset management for property owners and meet the demands of property owners for renovation safety. With its high-quality and convenient furniture products and services, the Group has been highly recognised by property owners. In terms of home-living services for property owners, the Group provides Hevol selection services, which greatly meets and facilitates the life of property owners by selecting commodities required by property owners in their daily lives. At the same time, in order to continuously provide property owners with more choices for a better life, the Group has also organised and provided travel services, home care for the elderly and other services, and will provide more services in the near future.

During the six months ended 30 June 2023, the Group's revenue from community value-added services reached approximately RMB114.1 million, representing an increase of approximately RMB41.1 million, or approximately 56.2% as compared to approximately RMB73.0 million in the same period in 2022. For the six months ended 30 June 2023, revenue generated from community value-added services, representing approximately 17.6% of the Group's total revenue for the period.

## **Value-added services to non-property owners**

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

During the six months ended 30 June 2023, revenue from value-added services to non-property owners reached approximately RMB40.1 million, representing a slight increase of approximately RMB0.5 million, or approximately 1.4% as compared to approximately RMB39.6 million in the same period in 2022. For the six months ended 30 June 2023, revenue generated from value-added services to non-property owners, representing approximately 6.2% of the Group's total revenue for the period.

## FUTURE OUTLOOK

Under the strategic policy of the “four adherences”, with promoting high-quality development as the main theme, improving the satisfaction of property owners as the direction, reform and innovation as the fundamental impetus, and meeting the increasing needs of property owners for a better life as the primary purpose, the Group will further implement quality control management strategy, comprehensively promote the implementation of standardisation system, and enhance brand awareness and influence to achieve rapid and high-quality development of Hevol Services.

## FINANCIAL REVIEW

### Revenue

The Group derived revenue from: (i) property management services; (ii) community value-added services; and (iii) value-added services to non-property owners. Overall revenue increased by approximately RMB183.5 million, or approximately 39.6% from approximately RMB463.3 million for the six months ended 30 June 2022 to approximately RMB646.8 million for the six months ended 30 June 2023. Such growth was primarily attributable to an increase in property management services by approximately RMB141.9 million, or 40.5% and increase in community value-added services by approximately RMB41.1 million, or 56.2% resulting from the business expansion through organic growth and acquisitions of two major subsidiaries in April and September of 2022 which aggregately contributed approximately RMB142.3 million in these two sectors. The Group’s total GFA under management increased by approximately 29.0% from approximately 43.1 million sq.m for the six months ended 30 June 2022 to approximately 55.6 million sq.m. in the same period of 2023, and the number of property management projects increased from 249 to 329.

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

	Six months ended 30 June					
	2023		2022		Change	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Property management services	<b>492,628</b>	<b>76.2</b>	350,656	75.7	141,972	40.5
Community value-added services	<b>114,084</b>	<b>17.6</b>	73,035	15.8	41,049	56.2
Value-added services to non-property owners	<b>40,136</b>	<b>6.2</b>	39,584	8.5	552	1.4
Total	<b><u>646,848</u></b>	<b><u>100.0</u></b>	<b><u>463,275</u></b>	<b><u>100.0</u></b>	<b><u>183,573</u></b>	<b><u>39.6</u></b>

### ***Property management services***

Property management services primarily include property management fees for providing security, cleaning, greening, gardening as well as repair and maintenance services to residential communities, commercial properties and other public construction projects. Revenue increased by approximately RMB141.9 million, or approximately 40.5% from approximately RMB350.7 million for the six months ended 30 June 2022 to approximately RMB492.6 million for the six months ended 30 June 2023. Such increase was primarily attributable to the increase in the total GFA under management resulting from the business expansion through organic growth and acquisitions of two major subsidiaries in April and September of 2022, which contributed approximately RMB115.8 million of revenue in aggregate from property management services for six months ended 30 June 2023.

### ***Community value-added services***

Revenue from community value-added services increased by approximately RMB41.1 million or approximately 56.2% from approximately RMB73.0 million for the six months ended 30 June 2022 to approximately RMB114.1 million for the six months ended 30 June 2023. Such revenue is divided into three segments, including (i) home-living services, (ii) leasing of car parking space and (iii) leasing of common facilities, which amounted to approximately RMB26.6 million, RMB52.8 million and RMB34.7 million, respectively for the six months ended 30 June 2023. Revenue from home-living services, leasing of car parking space and leasing of common facilities amounted to approximately RMB17.7 million, RMB36.8 million and RMB18.5 million, respectively, for the six months ended 30 June 2022. Such increase was due to an increase in the number of property management projects through bidding, co-operation with other property developers and acquisitions of two major subsidiaries in 2022. In addition, the Group actively developed and expanded value-added services to existing residential communities which also contributed to such increase.

### ***Value-added services to non-property owners***

The Group provides a wide range of value-added services to non-property owners including site services and auxiliary property management services. Revenue from value-added services to non-property owners increased by approximately RMB0.5 million, or approximately 1.4% from approximately RMB39.6 million for the six months ended 30 June 2022 to approximately RMB40.1 million for the six months ended 30 June 2023, which was mainly due to an increase of the ancillary property management services provided to Hevol Real Estate Group and other property developers.

## Cost of Sales

Cost of sales of the Group primarily comprises staff costs, sub-contracting costs, utility expenses, repairs and maintenance costs, cost of providing ancillary property management services, material costs and sales taxes. Cost of sales increased by approximately RMB135.4 million or approximately 43.3% from approximately RMB312.4 million for the six months ended 30 June 2022 to approximately RMB447.8 million for the six months ended 30 June 2023. Such increase was mainly attributable to: (i) an increase of repairs and maintenance expenses by approximately RMB55.7 million for the six months ended 30 June 2023 as compared to the same period in 2022 due to an increase in the number of property management projects from 249 to 329; (ii) an increase of the Group's staff costs by approximately RMB26.0 million from approximately RMB132.7 million for the six months ended 30 June 2022 to approximately RMB158.7 million for the six months ended 30 June 2023 due to the increase in number of service employee headcount as a result of business expansion and acquisition of two major subsidiaries in 2022; (iii) an increase of utilities of approximately RMB21.4 million for the six months ended 30 June 2023 due to the increase in the number of property management projects; and (iv) an increase of the Group's sub-contracting costs by approximately RMB17.9 million for the six months ended 30 June 2023, due to an increase in its GFA under management resulting from the expansion of property management services. The increase of cost of sales was substantially in line with the growth rate of revenue, primarily due to the parallel increase in costs resulting from the Group's business expansion.

## Gross Profit and Gross Profit Margin

The table below sets forth the Group's gross profit and gross profit margin by business segment for the periods indicated:

	Six months ended 30 June					
	2023		2022		Change	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	<i>RMB'000</i>	%
Property management services	131,547	26.7	98,146	28.0	33,401	34.0
Community value-added services	54,523	47.8	40,058	54.8	14,465	36.1
Value-added services to non-property owners	12,997	32.4	12,629	31.9	368	2.9
<b>Total</b>	<b>199,067</b>	<b>30.8</b>	<b>150,833</b>	<b>32.6</b>	<b>48,234</b>	<b>32.0</b>

Overall gross profit of the Group increased by approximately RMB48.3 million, or approximately 32.0% from approximately RMB150.8 million for the six months ended 30 June 2022 to approximately RMB199.1 million for the six months ended 30 June 2023. The overall gross profit margin decreased from approximately 32.6% for the six months ended 30 June 2022 to approximately 30.8% for the six months ended 30 June 2023. Such decrease was primarily attributable to: (i) an increase in staff costs resulted from an increase in salary rate and the number of employee headcount after acquisition of subsidiaries; and (ii) an increase in repairs and maintenance expenses, utilities and sub-contracting costs in the segments of property management services in order to improve the quality of services; and (iii) the implementation of employee incentive rewards in relation to innovative value-added services to motivate employees to promote a variety of home life services.

#### ***Property management services***

Gross profit for the Group's property management services increased by approximately RMB33.4 million, or approximately 34.0% from approximately RMB98.1 million for the six months ended 30 June 2022 to approximately RMB131.5 million for the six months ended 30 June 2023. The increase of gross profit is primarily attributable to an increase in GFA under management as a result of an increase in number of property management projects under management through organic growth and acquisitions. Gross profit margin of the Group's property management services decreased to approximately 26.7% for the six months ended 30 June 2023 from approximately 28.0% for the six months ended 30 June 2022. Such decrease was primarily due to an increase in staff cost as a result of an increase in salary rate and inclusion of more repairs and maintenance expenses, utilities and sub-contracting costs to improve the quality of service.

#### ***Community value-added services***

Gross profit for the Group's community value-added services increased by approximately RMB14.4 million, or approximately 36.1% from approximately RMB40.1 million for the six months ended 30 June 2022 to approximately RMB54.5 million for the six months ended 30 June 2023, due to an increase of revenue from community value-added services such as home-living and other services, management and leasing of car parking spaces and leasing of common facilities etc., which due to the increase in the total GFA under management as a result of an increase in the number of property management projects through organic growth and acquisitions. Gross profit margin decreased from approximately 54.8% for the six months ended 30 June 2022 to approximately 47.8% for the six months ended 30 June 2023, resulted from implementing employee incentive rewards in relation to innovative value-added services to motivate employees to promote a variety of home life services.

#### ***Value-added services to non-property owners***

Gross profit for the Group's value-added services to non-property owners increased by approximately RMB0.4 million, or approximately 2.9% from approximately RMB12.6 million for the six months ended 30 June 2022 to approximately RMB13.0 million for the six months ended 30 June 2023. Such changes were attributable to an increase in the ancillary property management services provided to Hevol Real Estate Group and other property developers. Gross profit margin remained stable at 32.4% for the six months ended 30 June 2023 compared to approximately 31.9% for the six months ended 30 June 2022.

#### ***Other income and gains***

Other income amounted to approximately RMB3.4 million for the six months ended 30 June 2023, representing a decrease of approximately to RMB1.0 million, or approximately 22.7% compared to approximately RMB4.4 million in the same period in 2022. The decrease was mainly due to a decrease in government subsidy income and bank interest income.

## **Administrative Expenses**

Administrative expenses of the Group mainly include staff costs, bad debts and hospitality expenses, professional fees, conference fees and training costs for its employees, travelling and depreciation and amortisation. Administrative expenses of the Group increased by approximately RMB26.5 million, or approximately 39.9% from approximately RMB66.4 million for the six months ended 30 June 2022 to approximately RMB92.9 million for the six months ended 30 June 2023, primarily due to: (i) an increase in staff costs of approximately RMB11.1 million, or approximately 32.3%, resulting from the expansion in the business scale of the Group; (ii) an increase in legal and professional fees of approximately RMB3.4 million or approximately 83.4%, resulted by the inclusion of such expenses of newly acquired subsidiaries; (iii) an increase of amortisation of intangible assets and depreciation of property, plant and equipment of approximately RMB4.1 million, or approximately 50.6%, resulted from the acquisition of subsidiaries; and (iv) an inclusion of bad debts amounted to approximately RMB7.3 million for the six months ended 30 June 2023.

## **Income Tax Expense**

Income tax expenses of the Group decreased by approximately RMB0.8 million, or approximately 6.0% from approximately RMB13.3 million for the six months ended 30 June 2022 to approximately RMB12.5 million for the six months ended 30 June 2023, primarily due to the inclusion of tax effect on non-taxable income and utilisation of tax losses previously not recognised.

## **Profit for the Period Attributable to Equity Holders of the Company**

Profit for the period attributable to equity shareholders of the Company increased by approximately RMB9.9 million, or approximately 22.3% from approximately RMB44.3 million for the six months ended 30 June 2022 to approximately RMB54.2 million for the six months ended 30 June 2023, mainly attributable to: (i) the expansion of business scale and an increasing number of property management projects; and (ii) the inclusion of profits of newly acquired subsidiaries.

## **Intangible Assets**

Intangible assets of the Group mainly consisted of identified property management contracts and customers relationships, which decreased from approximately RMB127.5 million as at 31 December 2022 to approximately RMB119.1 million as at 30 June 2023 arising from amortisation for the period.

## **Investment Properties**

Investment properties of the Group consisted of certain car parking spaces and shop premises, which decreased from approximately RMB40.5 million as at 31 December 2022 to approximately RMB39.7 million as at 30 June 2023, mainly due to depreciation.

## **Goodwill**

Goodwill maintained at approximately RMB481.5 million as at 30 June 2023 and 31 December 2022, there was no acquisition during the period.

## **Trade and Other Receivables**

Trade and other receivables mainly include trade receivables, prepayments and other receivables. Trade receivables are mainly related to property management services as well as value-added services. Trade receivables of the Group increased from approximately RMB421.1 million as at 31 December 2022 to approximately RMB489.6 million as at 30 June 2023, primarily due to the inclusion of trade receivables of newly acquired subsidiaries and organic growth of trade receivables after expansion of scale. Other receivables increased from approximately RMB222.6 million as at 31 December 2022 to approximately RMB226.5 million as at 30 June 2023, mainly due to an increase in advances to employees by the inclusion of balances of newly acquired subsidiaries. The Group seeks to strengthen strict control over its outstanding receivables. The Group performs ongoing credit evaluation of its customers and makes frequent contact with its customers to encourage regular payment of management fees, if necessary.

## **Contract Liabilities**

The Group's contract liabilities mainly arise from advance payments made by customers while the underlying property management services are yet to be provided. Contract liabilities of the Group remained stable at approximately RMB291.6 million as at 30 June 2023 compared to approximately RMB295.7 million as at 31 December 2022.

## **Trade and Other Payables**

Trade payables of the Group decreased from approximately RMB123.4 million as at 31 December 2022 to approximately RMB122.9 million as at 30 June 2023, primarily due to a decrease in purchase of materials and utilities during the period. Other payables consist of accrued charges and other payables, consideration payables, financial guarantees issued, accrued staff costs, deposits received and amounts collected on behalf of property owners. The decrease of other payables of the Group from approximately RMB430.6 million as at 31 December 2022 to approximately RMB425.7 million as at 30 June 2023 was primarily due to a decrease of staff costs and welfare accruals, consideration payables and financial guarantees' issued, totaling approximately RMB39.5 million, net-off by an increase of accrued charges and other payables and Renovation deposits collected from property owners of approximately RMB34.6 million.

## **Liquidity, Financial and Capital Resources**

As at 30 June 2023, the Group's cash and cash equivalents decreased by approximately RMB19.3 million from approximately RMB275.9 million as at 31 December 2022 to approximately RMB256.6 million as at 30 June 2023. As at June 30, 2023, the cash and cash equivalents of the Group were mainly denominated in RMB and HKD. As at 30 June 2023, the Group's net current assets increased from approximately RMB60.9 million as at 31 December 2022 to approximately RMB109.7 million as at 30 June 2023. As at 30 June 2023, the Group's current ratio was 1.13 times compared to 1.07 times as at 31 December 2022. During the six months ended 30 June 2023, the Group did not employ any financial instrument for hedging purpose.

As at 30 June 2023, the Group had outstanding bank borrowings of approximately RMB15.5 million. The bank borrowings represented loans denominated in RMB and carrying interest at fixed rate ranging from 3.95% to 4.75% per annum (31 December 2022: 3.95% to 4.2% per annum).

## **Treasury Policies**

The Group has adopted a prudent financial management approach towards its treasury policies to ensure the liquidity requirements from daily operation as well as capital expenditures are met. The Board of the Company closely monitors the Group's liquidity positions, while surplus cash will be invested appropriately with the consideration of the credit risks, liquidity risks and market risks of the financial instruments.

## **Foreign Exchange Risk and Related Hedges**

The Group is principally focused on its business in China. Except for bank deposits denominated in foreign currencies, the Group was not subject to any other material risk directly relating to foreign exchange fluctuation. During the six months ended 30 June 2023, the directors of the Company (“**Directors**”) expected that fluctuations of the RMB exchange rate would not materially and adversely affect the operations of the Group. The Group does not have a foreign currency hedging policy. The management will continue to monitor the foreign exchange exposure, and take prudent measures to reduce foreign exchange risks.

## **Employees and Remuneration Policies**

The Group had approximately 5,110 employees as at 30 June 2023 compared to 4,936 employees as at 30 June 2022. For the six months ended 30 June 2023, the Group's total staff costs were approximately RMB204.1 million. The remuneration package of the Group's employees included salary, bonus and other cash subsidies. Employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions within the general framework of the Group's salary and bonus system. The Group is subject to social insurance contribution plans or other pension schemes prescribed by the local governments and is required to pay on behalf of the employees a monthly social insurance fund covering pension fund, medical insurance, work-related injury insurance, maternity insurance and unemployment insurance, the housing provident fund, or other mandatory provident fund schemes on behalf of the employees. The Group hosted comprehensive internal staff training programmes for its staff to improve and enhance their technical and service skills, as well as to provide them with the knowledge of industry quality standards and work place safety standards. The Group provided orientation training to new hires and introduce them to the Group's corporate culture to understand its service standards and procedures. The Group also provided training courses and regular seminars on various aspects of its business operations, such as quality control and customer relationship management, to its employees. The Group had also adopted a share option scheme, details of which are disclosed in the paragraph headed “Share Option Scheme” in this announcement.

## **INTERIM DIVIDEND**

The Board resolved that no interim dividend shall be declared for the six months ended 30 June 2023.

## **CHARGE ON ASSETS**

As at 30 June 2023, certain investment properties of the Group of approximately RMB12.5 million were pledged for a bank borrowings of RMB4.5 million (31 December 2022: RMB12.8 million).

## **GEARING RATIO**

The Group's gearing ratio is calculated as net debt divided by total equity. Net debt is calculated as total interest-bearing debt less cash and cash equivalents. As at 30 June 2023 and 31 December 2022, the gearing ratio of the Group maintained at net cash position.

## **CONTINGENT LIABILITIES**

As at 30 June 2023, the Group did not have any material contingent liabilities (31 December 2022: Nil).

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

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

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2023.

## **SUBSEQUENT EVENTS**

There has been no significant subsequent event from 30 June 2023 to the date of this announcement.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

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

The Company has adopted Corporate Governance Code (the “**CG Code**”) set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) as its own code of corporate governance. The Company has complied with all applicable code provisions set out in the CG Code during the six months ended 30 June 2023. The Company will continue to review and enhance its corporate governance practices to ensure the compliance with the CG Code.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as a code of conduct for Directors to conduct securities transactions. Having made specific inquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the six months ended 30 June 2023.

## USE OF NET PROCEEDS FROM LISTING

With the shares of the Company (the “Shares”) listed on the Stock Exchange on 12 July 2019, the net proceeds from the Global Offering were approximately HK\$75.8 million (equivalent to approximately RMB66.6 million), which will be utilised for the purposes as set out in the Company’s prospectus dated 27 June 2019 (the “Prospectus”). As at 30 June 2022, RMB0.2 million and RMB3.7 million remained unutilised for the purposes of bidding for new property management projects and investment in advanced technologies and smart communities, respectively (collectively, the “Unutilised Proceeds”). As at 30 June 2023, the Unutilised Proceeds and hence all of the net proceeds from the listing have been utilised in the manner consistent with that as set out in the Prospectus.

Set out below is the actual utilisation of the net proceeds from the listing as at 30 June 2023:

### Net proceeds (in RMB million)

Item	Percentage	Available	Utilised	Unutilised	Expected time of use of unutilised proceeds
1 Acquisition of other property management companies	51.8%	34.5	34.5	-	-
2 Bidding for new property management projects	7.7%	5.1	5.1	-	-
3 Investment in advanced technologies and smart communities	23.1%	15.4	15.4	-	-
4 Expansion of value added services business segment	14.4%	9.6	9.6	-	-
5 Working capital and general corporate purpose	3.0%	2.0	2.0	-	-
		<u>        </u>	<u>        </u>	<u>        </u>	
	100.0%	<u>        </u>	<u>        </u>	<u>        </u>	-

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

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

## AUDIT COMMITTEE

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

The Audit Committee currently comprises three independent non-executive Directors, namely Dr. Chen Lei, Mr. Fan Chi Chiu and Mr. Qian Hongji. The Audit Committee had reviewed the unaudited interim results for the six months ended 30 June 2023 and has discussed, among other things, the matters of risk management and internal control with the management.

## **PUBLICATION OF INTERIM RESULTS AND 2023 INTERIM REPORT**

This announcement is published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.hevolwy.com.cn](http://www.hevolwy.com.cn)), and the interim report of the Group for the six months ended 30 June 2023 containing all information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 31 August 2023

*As at the date of this announcement, the Board comprises two executive Directors, namely Ms. Hu Hongfang and Mr. Wang Wenhao, two non-executive Directors, namely Mr. Liu Jiang and Mr. Zhou Wei, and four independent non-executive Directors, namely Dr. Chen Lei, Mr. Fan Chi Chiu, Dr. Li Yongrui and Mr. Qian Hongji.*