



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

2022
ANNUAL REPORT

A Happy Life With Hevol

The background of the page features a stylized, wireframe illustration of several skyscrapers. The buildings are composed of a grid of thin blue lines, creating a 3D architectural effect. They are arranged in a perspective view, with some buildings appearing closer and larger than others, all set against a plain white background.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Wenhao (*Chief Executive Officer*)

Ms. Hu Hongfang

Non-executive Directors

Mr. Liu Jiang (*Chairman*)

Mr. Zhou Wei

Independent Non-executive Directors

Mr. Qian Hongji

Dr. Li Yongrui

Mr. Fan Chi Chiu

Dr. Chen Lei

AUDIT COMMITTEE

Mr. Fan Chi Chiu (*Chairman*)

Mr. Qian Hongji

Dr. Chen Lei

REMUNERATION COMMITTEE

Dr. Li Yongrui (*Chairman*)

Mr. Qian Hongji

Dr. Chen Lei

NOMINATION COMMITTEE

Mr. Liu Jiang (*Chairman*)

Mr. Qian Hongji

Dr. Li Yongrui

COMPANY SECRETARY

Mr. Lee Lap Keung

(Hong Kong Certified Public Accountant)

AUTHORISED REPRESENTATIVES

Mr. Wang Wenhao

Mr. Lee Lap Keung

REGISTERED OFFICE

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

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Wanchai, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited

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Cayman Islands

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Wanchai, Hong Kong

AUDITOR

BDO Limited
Registered Public Interest Entity Auditor
25th Floor, Wing On Centre
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LEGAL ADVISERS

As to Hong Kong law:
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15 Queen's Road Central
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PRINCIPAL BANKERS

China Construction Bank, Beijing Branch,
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China Construction Bank Beijing,
Gucheng Sub-branch

COMPANY WEBSITE

www.hevolwy.com.cn

STOCK CODE

6093

DATE OF LISTING

12 July 2019

Chairman's Statement

Dear shareholders,

On behalf of the board of directors (the "**Board**") of Hevol Services Group Co. Limited (the "**Company**"), I am pleased to present the annual report of the Company for the year ended 31 December 2022 (the "**Reporting Period**").

Following the publication of the "Ten New Measures" for optimisation of COVID-19 prevention and control by the State Council in December 2022, various regions gradually relaxed their epidemic prevention policies and China entered the "post-pandemic era". The COVID-19 virus has changed our life in the past three years, and will also change our life in the future. In the "post-pandemic era", the keynote of the coming three years will be economic revitalization, securing the normal operation of national economy with preset targets, reducing the impacts of pandemic, getting out of the quagmire of pandemic, and the continuous release of momentum for socioeconomic recovery, and therefore an economic upturn will be likely.

For the twelve months ended 31 December 2022, Hevol Services Group Co., Limited and its subsidiaries (together, the "**Group**") achieved revenue of approximately RMB1,041.2 million, representing an increase of approximately 35.8% over the same period in 2021; in particular, the revenue from property management services amounted to approximately RMB779.4 million, representing a year-on-year increase of approximately 47.5%; the revenue from community value-added services amounted to approximately RMB176.4 million, representing a year-on-year increase of approximately 27.7%; the revenue from value-added services to non-property owners amounted to approximately RMB85.4 million, representing a year-on-year decrease of approximately 14.8%; the Group's gross profit was approximately RMB295.3 million, representing an increase of approximately 11.8% over the same period in 2021.



In 2022, thanks to the joint efforts of all employees, the Group overcame various difficulties, obtained good results, and maintained rapid and healthy growth, which were attributed to the hard work of every employee. In the brand-new year of 2023, we must deeply understand the logic of property management market, leverage our advantages and follow the right path of development.

ADHERING TO UNSHAKABLE FOUNDATION OF SERVICE QUALITY!

Starting from basic services, with smiles, we should upgrade service quality according to the actual life demands of owners, complete and refine the basic services and public management services, fully implement "quality long-termism" and create a comfortable, beautiful life scenario for owners. We believe in the establishment of brand name through quality, strengthen our roots, solidify our base, follow the "service-oriented, owner first" philosophy, drive the rapid development of property service quality, and win owners' praises, which become the critical factors for us to keep our market shares.

ADHERING TO UNSHAKABLE 3-YEAR DEVELOPMENT PLAN!

Relying on the improvement of comprehensive capabilities such as service capabilities, expansion capabilities, and operational capabilities, the Group takes the path of rapid and quality development. Since the Group's listing in the Hong Kong capital market in July 2019, the Company has opened a new chapter of development, and achieved impressive results over the past three years. In face of future development, the Group will grow with times, realise our missions, follow our 3-year development targets, focus on key indicators such as "scale, revenue, profit", and adhere to the high-quality and high-level development of the Group.



Chairman's Statement

ADHERING TO UNSHAKABLE DEVELOPMENT ROUTE OF THIRD-PARTY ENTRUSTMENT!

We should focus on third-party entrustment and joint venture cooperation, clarify the objectives of third-party entrustment expansion, create benchmark project satisfactory to customers; cultivate the urban markets where are operating, constantly improve the regional management density, and deploy the operations across China. We should coordinate internal and external resources, fully empower the expansion of third-party entrustment business, opening up new ways of thinking for such expansion, and comprehensively enhance our business capabilities for such expansion. Meanwhile, based on residential property services, we should adhere to innovative development strategies, continue to open up new business forms, shift from residential property business to more non-residential business segments and gradually consolidate such businesses.

ADHERING TO UNSHAKABLE BENEFIT SHARING PRINCIPLE!

We should improve the compensation performance system, be guided by objectives, balance performances and results, motivate employees, which are the core drive for the Group to realise win-win with employees, so that all employees could feel they are both entrepreneurs and sharers of benefits of corporate growth ; we should insist on the corporate values of "opening-up and innovation" and "co-creation and co-success", be committed to the establishment of a cooperative platform for resources sharing, establish a long-term cooperative relationship of mutual benefit and mutual interest, so as to create even greater commercial value and social benefits. We should create greater return on investment for shareholders through high-quality and high-level sustainable development.

In the "post-pandemic era", in face of new conditions and new requirements, we should improve quality and benefits as the development drivers, always insist on the strategic ideas of "the four unshakable principles", be committed to the promotion of high-quality development, driven by reform and innovation, be committed to satisfying owners' increasing demands for living a good life, further implement quality control management strategies, fully promote the implementation of a standardized system, enhance brand recognition and influence, and boost the steady, quality and rapid growth of the Group!

Finally, on behalf of the Board, I would like to take this opportunity to appreciate the concerted efforts and dedication of the directors, management and all employees in the challenging market environment, and also express my sincere gratitude to all shareholders, business partners, customers and suppliers for their long-term support and trust to the Group!

Liu Jiang

Chairman of the Board of Directors

Hong Kong, 31 March 2023

Management Discussion and Analysis

INDUSTRY REVIEW

In 2022, China's economy faced many challenges, including the external turbulent international environment, the resurgence of the internal epidemic and shrinking market demand. These factors had also brought great impact and challenges to the property management industry. However, the PRC government has introduced corresponding policies to provide liquidity support and development opportunities for real estate developers and property management companies.

Under such circumstances, the Group has taken a series of measures to cope with challenges and develop market opportunities. Firstly, we are committed to improving our service quality by providing better property management services to meet our customers' needs. Meanwhile, we expanded our service scope and strengthened market expansion to expand our customer base by conducting business in more cities.

In general, the Group made great achievements in 2022, laying a solid foundation for future growth and development. We will continue to strive to improve our service quality and expand our market scale to achieve better results and returns.



Management Discussion and Analysis

BUSINESS REVIEW

The Group is a reputable market player in the property management industry in the PRC. In April 2022, the Group ranked 32nd among the Top 100 Property Service Companies by the China Index Academy, and up 6th compared with 2021. As of 31 December 2022, the Group provided property management services, community value-added services and value-added services to non-property owners in 39 cities in the PRC, a total number of 326 contracted projects with a total contracted gross floor area (“GFA”) of approximately 62.4 million sq.m. (2021: 46.1 million sq.m.) and a total number of 291 projects under management with a total GFA under management of approximately 51.4 million sq.m. (2021: 34.0 million sq.m.), both of which achieved considerable growth in terms of contracted GFA and GFA under management.

Over the past twenty-one years, sticking to the concept of excellent service with customers first, the Group has always adhered to the commitment of “Living a happy life with Hevol” to build a quality lifeline and deliver quality services to thousands of households. The Group is committed to being the most respected property service enterprise in China by offering customers heartwarming services.

During the Reporting Period, the Group has won a number of awards, including:

TOP32 in 2022 Top 100 Property Management Enterprises in China

2022 Growth Leading Enterprise of China Property Service Enterprises

TOP23 in 2022 China Top 100 Property Enterprises in respect of Service Satisfaction

China Top 100 Property Service Brands in 2022

2022 Leading Enterprise Development Speed TOP5 of Listed Property Companies

2022 Leading Enterprise Development Potential TOP5 of Listed Property Companies

2022 Property Service Market-Oriented Operation Leading Brand Companies of China



As of 31 December 2022, the Group recorded revenue of approximately RMB1,041.2 million, representing an increase of approximately 35.8% compared to the same period in 2021; gross profit of approximately RMB295.3 million, representing an increase of approximately 11.8% compared to the same period in 2021; and gross profit margin of approximately 28.4%, representing a year-on-year decrease of approximately 6.1 percentage points. The Group recorded net profit after tax for the twelve months ended 31 December 2022 of approximately RMB103.6 million, representing a decrease of approximately 4.6% compared to the same period in 2021.

PROPERTY MANAGEMENT SERVICES

Property Management Services

The Group provides a range of property management services for property owners and residents as well as property developers, including security, cleaning, greening, gardening services as well as repair and maintenance services. The Group's property management portfolio focuses on serving residential communities and also involves other types of properties, such as commercial properties, authorities and school etc.

As of 31 December 2022, the revenue from property management services amounted to approximately RMB779.4 million, representing an increase of approximately RMB250.9 million or approximately 47.5% as compared to approximately RMB528.5 million in the same period in 2021. For the twelve months ended 31 December 2022, the Group's revenue generated from property management services, representing approximately 74.9% of the Group's total revenue for the period.

As at 31 December 2022, the Group managed 291 property management projects across 39 cities in China with a total GFA under management of approximately 51.4 million sq.m., covering five regions in China including Northern China, Northeastern China, Southwestern China, Southern China and Eastern China.

Management Discussion and Analysis

The Group concentrated superior resources to continuously expand the management scale. In April 2022, Zunyi Jinning Property Management Co., Ltd. ("**Zunyi Jinning**"), a professional property management enterprise with the largest scale in the property market of Zunyi, officially joined the Group, thus establishing the position of local top one brand in the industry and creating a new benchmark for regional services in Guizhou. In September 2022, the Group acquired 100% equity interest of Chongqing Xinlongxin Property Management Co., Ltd. ("**Chongqing Xinlongxin**"), which is the third Top 100 Property Management Enterprises that the Group has cooperated with since its listing. Chongqing Xinlongxin has deeply developed in Chongqing for 19 years. The projects under management are concentrated in the downtown and surrounding urban areas of Chongqing, and a number of projects have been awarded the "National Management Demonstration Community" and "Top 10 Residential Communities in Chongqing" and other titles. The Group has always adhered to the corporate values of "openness, innovation, co-creation, and co-success", and cooperated with excellent partners with high quality and business synergy to complement each other's advantages and synergize for improvement. With the successful completion of the equity strategic cooperation, the Group's strategic layout and brand influence in Southwestern China have been further strengthened.



Geographical Coverage

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:

	31 December 2022				31 December 2021			
	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 ⁽¹⁾	103,650	13.3	5,463	10.6	116,861	22.1	6,181	18.2
Northeastern China ⁽²⁾	42,534	5.5	2,660	5.2	31,949	6.1	2,551	7.5
Southwestern China ⁽³⁾	388,502	49.8	30,098	58.6	180,823	34.2	12,802	37.7
Southern China ⁽⁴⁾	91,162	11.7	4,109	8.0	81,373	15.4	4,050	11.9
Eastern China ⁽⁵⁾	153,574	19.7	9,060	17.6	117,504	22.2	8,392	24.7
Total	779,422	100.0	51,390	100.0	528,510	100.0	33,976	100.0

Notes:

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

Management Discussion and Analysis

As at 31 December 2022, the Group's geographical coverage of property management projects has expanded to 39 cities across China. The following diagram illustrates the Group's geographical coverage of properties under management as at 31 December 2022:



Management Discussion and Analysis

The Group managed a diverse portfolio of property management, comprising primarily residential properties and to a lesser extent, non-residential properties. Non-residential properties include commercial properties, public buildings and schools. As of 31 December 2022, the Group generated the majority of its property management services revenue from residential properties, which will continue to account for a significant portion of the Group's revenue stream in the near future. The table below sets out the breakdowns of its: (i) revenue generated from property management services by type of properties, and (ii) total GFA under management by type of properties for the periods indicated:

	31 December 2022				31 December 2021			
	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.	%
Residential properties	689,089	88.4	46,322	90.1	475,577	90.0	31,915	93.9
Non-residential properties	90,333	11.6	5,068	9.9	52,933	10.0	2,061	6.1
Total	779,422	100.0	51,390	100.0	528,510	100.0	33,976	100.0

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

	31 December 2022				31 December 2021			
	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.	%
Hevol Real Estate Group	196,430	25.2	8,257	16.1	233,401	44.2	7,405	21.8
Other property developers	582,992	74.8	43,133	83.9	295,109	55.8	26,571	78.2
Total	779,422	100.0	51,390	100.0	528,510	100.0	33,976	100.0



Management Discussion and Analysis

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 and daily needs of the property owners and residents, enhance their customer experience, satisfaction and loyalty, 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.

As of 31 December 2022, the Group's revenue from community value-added services reached approximately RMB176.4 million, representing an increase of approximately RMB38.3 million, or approximately 27.7% as compared to approximately RMB138.1 million in the same period in 2021. For the twelve months ended 31 December 2022, the Group's revenue generated from community value-added services, representing approximately 16.9% of the Group's total revenue for the period.

Value-added services to non-property owners

The Group is committed to expanding its value-added services to non-property owners and diversifying its sources of revenue. Revolving around the needs of property developers, it 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-round way.

As of 31 December 2022, the Group's revenue from value-added services to non-property owners amounted to approximately RMB85.4 million, representing a decrease of approximately RMB14.8 million, or approximately 14.8% as compared to approximately RMB100.2 million over the same period in 2021. For the twelve months ended 31 December 2022, the Group's revenue generated from value-added services to non-property owners, representing approximately 8.2% of the Group's total revenue for the period.



PROSPECT

Higher customer stickiness based on quality

We will return to the nature of services, and solidify the quality management. According to the Group's strategic development requirements, we will continue to improve the level 1, level 2 and level 3 systems, and realise the systems online, standardized, process-oriented and normalised. We will enhance quality inspection and customer reach standardisation, and develop 5-level inspection and supervision mechanism based on "customer reach". We will improve customer portraits and enhance community atmosphere creation, and plan different kinds of cultural events specific to key points and key customer groups, to make the community more comfortable and more loving.

Scale expansion by third-party entrustment business expansion

Precisely focus on third-party entrustment. Our market expansion focuses on third-party entrustment and joint venture. The Group will strictly control risks, integrate all regional resources, develop externally based on the market lines, and build an integrated market management platform; promote the organisation of customer relationship management, and improve the system of customer relationship management. We will actively create customer satisfactory benchmark projects, with the mindset of "operation-oriented, quality-oriented, features-oriented, brand building", and increase owners' satisfaction and industrial reputation through "highlighted projects", and boost the expansion of third-party entrustment business. We will strictly adhere to the strategy of "Six Requirements (六化戰略)", namely the centralization of investment and expansion areas, the integration of projects under management, seeking quality new projects, using intelligent tools in community management, innovation of value-added services, and staff involvement in quality improvement.

Value-added service to drive revenue growth

Create a multi-line and full-cycle service model. Oriented to customers' demand and backed by smart community platform, we will advocate a new mode of community diversified value-added services, and by expanding community services and product boundary, explore different fields like community group purchase, leasing/sales, door-to-door service, realise the ecological closed loop from service mode to scenario mode, and then to lifestyle mode, and create a value-added service platform covering full-cycle of community life services. The upgrading of value-added service quality will be centered on customer experience, and focus on value-added services, where we will precisely segment the communities, build a service platform for owners and ensure the supply of quality services, so as to enhance owners' satisfaction and drive the development of value-added services.

Management Discussion and Analysis

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 RMB274.4 million, or approximately 35.8% from approximately RMB766.8 million in 2021 to approximately RMB1,041.2 million in 2022, such growth was primarily attributable to: (i) an increase in revenue resulted from financial effects of the acquisition of two major subsidiaries which contributed revenue in aggregate of approximately RMB131.6 million in 2022, and (ii) an increase in revenue from home-living services and leasing of car parking space in the segment of community value-added services due to the growth in the number of property management projects from 195 in 2021 to 291 in 2022.

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

	Year ended 31 December					
	2022		2021		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Property management services	779,422	74.9	528,510	68.9	250,912	47.5
Community value-added services (including leasing income)	176,407	16.9	138,088	18.0	38,319	27.7
Value-added services to non-property owners	85,392	8.2	100,193	13.1	(14,801)	(14.8)
Total	1,041,221	100.0	766,791	100.0	274,430	35.8



Property management services

Property management services primarily include property management fees paid for providing security, cleaning and gardening and property repair and maintenance services to residential, commercial and other types of properties. Revenue increased by approximately RMB250.9 million, or 47.5%, from approximately RMB528.5 million in 2021 to approximately RMB779.4 million in 2022. 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 which contributed approximately RMB131.6 million of revenue in aggregate from property management services in 2022. The Group's total GFA under management increased by approximately 51.2% from approximately 34.0 million sq.m. in 2021 to approximately 51.4 million sq.m. in 2022, and the number of property management projects increased from 195 to 291.

Community value-added services

Revenue from community value-added services increased by approximately RMB38.3 million or approximately 27.7% from approximately RMB138.1 million in 2021 to approximately RMB176.4 million in 2022. 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 RMB85.8 million, RMB48.4 million and RMB42.2 million, respectively in 2022. Revenue from home-living services, leasing of car parking space and leasing of common facilities amounted to approximately RMB68.2 million, RMB48.8 million and RMB21.1 million, respectively, in 2021. Such increase was mainly due to an increase in the number of property management projects from 195 in 2021 to 291 in 2022 through bidding and acquisitions of two major subsidiaries during the year. In addition, the Group actively developed and expanded value-added services to the existing residential communities which also contributed to the increase.

Value-added services to non-property owners

The Group provides a wide range of value-added services to non-property owners including sales site services and auxiliary property management services. Revenue from value-added services to non-property owners decreased by approximately RMB14.8 million, or approximately 14.8% from approximately RMB100.2 million in 2021 to approximately RMB85.4 million in 2022. The decrease in revenue was due to a decrease of revenue in ancillary property management services to Hevol Real Estate Group and other property developers.

Management Discussion and Analysis



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 RMB243.3 million or 48.4% from approximately RMB502.6 million in 2021 to approximately RMB745.9 million in 2022. Such increase was mainly attributable to: (i) increase of the Group's staff costs by approximately RMB117.8 million from approximately RMB179.5 million in 2021 to approximately RMB297.3 million in 2022 due to the increasing number of service employee headcount as a result of business expansion and acquisition of subsidiaries, (ii) an increase of repairs and maintenance expenses resulted from an increase in the number of property management projects from 195 in 2021 to 291 in 2022; and (iii) an increase of utilities of approximately RMB41.9 million due to the increase in the number of property management projects. The increase of cost of sales was substantially in line with the growth rate of revenue, primarily due to the synchronous increase in the cost resulted from the Group's business expansion.

Gross Profit and Gross Profit Margin

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

	Year ended 31 December					
	2022		2021		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	187,654	24.1	152,759	28.9	34,895	22.8
Community value-added services (including leasing income)	79,720	45.2	72,644	52.6	7,076	9.7
Value-added services to non-property owners	27,934	32.7	38,790	38.7	(10,856)	(28.0)
Total	295,308	28.4	264,193	34.5	31,115	11.8



Management Discussion and Analysis

Overall gross profit of the Group increased by approximately RMB31.1 million, or 11.8% from approximately RMB264.2 million in 2021 to approximately RMB295.3 million in 2022. The increase in gross profit was primarily due to the increase in gross profit resulted from the expansion of the Group's business scale. Overall gross profit margin of the Group decreased from approximately 34.5% in 2021 to approximately 28.4% in 2022. Such decrease was primarily attributable to: (i) an increase in staff costs resulted from an increasing salary rate and also the number of employee headcount after acquisition of subsidiaries; and (ii) newly acquired subsidiaries with lower gross profit margin in the segment of property management services.

Property management services

Gross profit for the Group's property management services increased by approximately RMB34.9 million, or 22.8% from approximately RMB152.8 million in 2021 to approximately RMB187.7 million in 2022. The increase of gross profit is primarily attributable to an increase in total GFA under management as a result of an increasing number of property management projects. Gross profit margin decreased from 28.9% in 2021 to 24.1% in 2022 as a result of an increase in staff cost resulted from an increasing salary rate and number of employee headcount by expansion and the impact of lower gross profit margin on newly acquired subsidiaries.

Community value-added services

Gross profit for the Group's community value-added services increased by RMB7.1 million, or 9.7% from approximately RMB72.6 million in 2021 to approximately RMB79.7 million in 2022. The increase was mainly 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. Gross profit margin decreased from 52.6% in 2021 to 45.2% in 2022 resulted from the impact of lower gross profit margin of service provided on newly acquired subsidiaries.

Value-added services to non-property owners

Gross profit of value-added services to non-property owners decreased by approximately RMB10.9 million, or 28.0% from approximately RMB38.8 million in 2021 to approximately RMB27.9 million in 2022. Such changes were attributable to a decrease of ancillary property management services provided to Hevol Real Estate Group as compared to the same period in 2021. Gross profit margin decreased from approximately 38.7% in 2021 to approximately 32.7% in 2022, which was mainly attributable to an increase of cost of materials and decrease of revenue from ancillary property management services with relatively higher gross profit margin.

Other Income

Other income amounted to approximately RMB16.2 million in 2022, representing an increase of approximately RMB0.7 million, or approximately 4.5% compared to approximately RMB15.5 million in 2021, which was mainly due to an increase in government subsidy income.

Administrative Expenses

Administrative expenses of the Group mainly include staff costs, travelling and entertainment, professional fees, telecommunication, utilities, depreciation and amortization. Administrative expenses of the Group increased by approximately RMB11.3 million, or approximately 8.4% from approximately RMB134.5 million in 2021 to approximately RMB145.8 million in 2022, primarily due to: (i) an increase in staff costs resulting from the expansion in the business scale of the Group; (ii) the inclusion of administrative expenses of newly acquired subsidiaries, and (iii) an increase of amortisation of intangible assets and depreciation of property, plant and equipment resulted from the acquisition of subsidiaries.

ECL allowance on trade and other receivables

The ECL allowance on trade and other receivables increased by approximately RMB41.2 million or approximately 710.3% from approximately RMB5.8 million in 2021 to approximately RMB47.0 million in 2022. The Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors. The Group would also make individual assessment on the recoverability of trade receivables from related parties. Impairment of other receivables from third parties (excluding prepayments and advances to employees) are assessed collectively and individually and measured as either 12-month ECL or lifetime ECL. The increase in the ECL allowance on trade and other receivables was primarily driven by the increased trade receivables and certain upward adjustments of ECL rates based on the collection profile for sales in the past 36 months as well as the corresponding historical credit losses during that period and the current and forwarding-looking macroeconomic factors mainly including current situation in the domestic real estate sector and the ongoing effects of the COVID-19 pandemic, affecting the customer's ability to settle the amount outstanding.

Income Tax Expenses

Income tax expenses of the Group decreased by approximately RMB15.6 million, or 51.5% from approximately RMB30.3 million in 2021 to approximately RMB14.7 million in 2022, primarily due to the inclusion of tax effect on non-taxable income and utilisation of tax losses previously not recognised.

Profit for the Year

Profit for the year decreased by approximately RMB5.0 million, or 4.6% from approximately RMB108.6 million in 2021 to approximately RMB103.6 million in 2022, primarily due to an increase of expected credit loss allowance on trade and other receivables of approximately RMB41.2 million, resulting in a decrease in net profit margin of 4.0% for the year, set-off the increase in profit after tax generated from two newly acquired subsidiaries amounted to approximately RMB19.2 million and growth of profit of the Group resulted from expansion.

Management Discussion and Analysis

Intangible Assets

Intangible assets increased from approximately RMB85.2 million in 2021 to approximately RMB127.5 million in 2022. The increase was mainly due to additions of intangible assets of approximately RMB54.8 million, which resulted from the acquisition of two subsidiaries and the addition of computer software of approximately RMB1.2 million, offset by amortisation and depreciation for the year with aggregate amount of approximately RMB13.6 million.

Investment Properties

Investment properties which consisted of certain car parking spaces and shop premises, increased from RMB28.8 million in 2021 to RMB40.5 million in 2022 mainly due to acquisition of subsidiaries of approximately RMB12.8 million, set off by depreciation of approximately RMB1.1 million.

Goodwill

Goodwill increased from approximately RMB292.7 million as at 31 December 2021 to approximately RMB481.5 million as at 31 December 2022, due to the acquisitions of Zunyi Jinning and Chongqing Xinlongxin. Further details as to the goodwill arising from the acquisitions are set out in note 15 to the consolidated financial statements in this annual report.

Other Deposits

Other deposits represented deposits paid to property developers or owners' committee at the inception of entering into property management services contracts.

Deposits Paid for Acquisition of a Subsidiary

Deposits of approximately RMB50.7 million as at 31 December 2021 mainly represented the deposit paid for acquisition of 68.75% equity interests of Zunyi Jinning, the acquisition has completed in April 2022. Further details are set out in note 17 to the consolidated financial statements in this annual report.

Trade and Other Receivables

Trade and other receivables include trade receivables, prepayments and other receivables. Trade receivables are mainly related to property management services as well as value-added services. Trade receivables of the Group increased from approximately RMB217.4 million as at 31 December 2021 to approximately RMB421.1 million as at 31 December 2022, primarily due to the inclusion of trade receivables of newly acquired subsidiaries of approximately RMB129.3 million and organic growth of trade receivables after expansion of scale. Other receivables mainly consist of deposits, prepayment and other receivables and payment on behalf of property owners. Other receivables increased from approximately RMB117.5 million as at 31 December 2021 to approximately RMB222.6 million as at 31 December 2022, mainly due to an increase in other deposits resulted from an increase in deposits paid for entering into property management services contracts and the impact of acquisitions of two subsidiaries that consolidated an increase in other receivables in aggregate of approximately RMB62.6 million. 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 increased from approximately RMB182.7 million as at 31 December 2021 to approximately RMB295.7 million as at 31 December 2022, representing an increase of approximately RMB113.0 million, primarily due to: (i) the managing of an increasing number of property management projects, and (ii) the inclusion of contract liabilities of newly acquired subsidiaries which amounted to approximately RMB76.5 million.

Trade and Other Payables

Trade payables of the Group increased from approximately RMB53.5 million as at 31 December 2021 to approximately RMB123.4 million as at 31 December 2022, primarily due to an increase in subcontracting services, materials and utilities expenses paid for the Group's business expansion and inclusion of trade payables of newly acquired subsidiaries of approximately RMB51.3 million. Other payables mainly consist of accrued staff costs, deposits received and amounts collected on behalf of property owners. The increase of other payables of the Group from approximately RMB279.1 million as at 31 December 2021 to approximately RMB430.6 million as at 31 December 2022 was primarily due to an increase of: (i) accrued charges and other payables of approximately RMB143.3 million resulting from an increasing number of property management projects; (ii) renovation deposits collected from property owners of approximately RMB28.9 million; and (iii) staff costs and welfare accruals of approximately RMB5.6 million, all of which were resulted from an increasing number of property management projects and inclusion of balances of newly acquired subsidiaries for the year ended 31 December 2022.

Liquidity, Capital Structure and Financial Resources

As at 31 December 2022, the Group's bank balances and cash decreased by approximately RMB115.3 million from approximately RMB391.2 million as at 31 December 2021 to approximately RMB275.9 million as at 31 December 2022, primarily due to (i) net cash outflow on acquisitions of two subsidiaries during this year of approximately RMB73.5 million; and (ii) payment of deposits to property developers or owners' committee or other third party of the inception of entering into property management services contracts. The Group's financial position remained solid. As at 31 December 2022, the Group's net current assets decreased from approximately RMB125.1 million as at 31 December 2021 to approximately RMB60.9 million as at 31 December 2022. As at 31 December 2022, the Group's current ratio was approximately 1.07 times compared to 1.22 times as at 31 December 2021. Such decrease was due to (i) payment for acquisition of subsidiaries resulted in an increase the amounts of goodwill and intangible assets in non-current assets, and (ii) inclusion of the balances of trade and other payables and contract liabilities of newly acquired subsidiaries. The Group has a borrowings of approximately RMB5.0 million as at 31 December 2022 which resulted from an acquisition of Chongqing Xinlongxin and certain of the Group's investment properties of approximately RMB12.8 million were pledged for the borrowings.

Management Discussion and Analysis

Proceeds from the Listing

With the Shares of the Company listed on the Stock Exchange on 12 July 2019, the net proceeds from the Global Offering were approximately HK\$75.8 million (equivalent to approximately RMB66.6 million), which were intended to be utilised for the purposes as set out in the Company's prospectus dated 27 June 2019 (the "**Prospectus**"). As at 31 December 2021, RMB1.2 million and RMB 5.6 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 31 December 2022, 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 net proceeds as at 31 December 2022:

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	–	–
	100.0%	66.6	66.6	–	

Proceeds from the placing of shares

On 24 June 2020, the Company issued 80,000,000 ordinary shares (the “**First Share Placing**”) at an issue price of HK\$1.28 per share. As a result, the Company received net proceeds of approximately HK\$100.9 million (equivalent to RMB91.9 million) after deduction of the placing commission and other related expenses. Please refer to the Company’s announcements dated 15 June 2020 and 24 June 2020 for details. As at 31 December 2022, all net proceeds from the First Share Placing have been utilised. Approximately HK\$96.2 million (equivalent to RMB87.7 million), representing approximately 95.4% of the net proceeds from the First Share Placing, was utilised for the acquisition of other property management companies and the remaining amount of approximately HK\$4.7 million (equivalent to approximately RMB4.2 million), representing approximately 4.6% of the net proceeds from the First Share Placing, was utilised for the Group’s general working capital.

On 5 February 2021, the Company issued 80,000,000 ordinary shares (the “**Second Share Placing**”) at an issue price of HK\$2.00 per share. As a result, the Company received net proceeds of approximately HK\$157.6 million (equivalent to approximately RMB131.4 million) after deduction of the placing commission and other related expenses. Please refer to the Company’s announcements dated 14 January 2021 and 5 February 2021 for details. The proceeds from the Second Share Placing have been fully applied towards the acquisition of other property management companies. As at 31 December 2022, all net proceeds from the Second Share Placing have been utilised.

Asset Charges

As at 31 December 2022, certain investment properties of the Group of RMB12.8 million were pledged for a bank borrowing of RMB5.0 million (2021: Nil).

Material Acquisitions and Disposals of Assets

The Group plans to expand the breadth and contents of the Group’s service offerings and property portfolio by mergers and acquisition by acquiring a majority shareholding of property management companies. During the year, the Group has completed two material equity acquisitions (details are set out in note 27 to the consolidated financial statements in this annual report). These acquisitions will enable the Group to further expand the scale and the scope of its business, deepen the synergy with the existing projects and achieve the complementary effect among regions and industries.

Management Discussion and Analysis

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

Save as disclosed elsewhere in this annual report, during the year 2022, the Group did not have any significant investment, and there was no plan for other material investments or additions of capital assets as at the date of this annual report.

Gearing Ratio

The 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 31 December 2022 and 2021, the gearing ratio of the Group maintained at net cash position.

Contingent Liabilities

As at 31 December 2022, the Group did not have any contingent liabilities (2021: Nil).

Treasury Policies

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

Foreign Exchange Risk

The Group's exposures to currency risk mainly arise from its bank balance of RMB270.4 million (2021: RMB359.7 million) denominated in RMB placed with banks in the PRC. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group does not hedge its foreign currency risk. However, management monitors the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Employees and Remuneration Policies

The Group had approximately 5,146 employees as at 31 December 2022 compared to 4,957 employees as at 31 December 2021. For the year ended 31 December 2022, the Group's total staff costs were approximately RMB383.4 million (2021: RMB277.2 million). The remuneration package of the 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 the Group's employees. The Group had also adopted a share option scheme, details of which are set out in the section headed "Share Option Scheme" and note 25 to the consolidated financial statements in this annual report.

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 an opportunity to have a personal stake in our Company with the view to achieving the following objectives: (i) motivate the selected participants to optimise their performance efficiency for the benefit of our Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the selected participants whose contributions are or will be beneficial to the long-term growth of our Group.

Management Discussion and Analysis

According to the terms of the Share Option Scheme, the participants of the Share Option Scheme include (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries; (ii) any Directors (including independent non-executive Directors) of our Company or any of its subsidiaries; and (iii) any advisors, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries. Notwithstanding the above, following the amendment of Chapter 17 of the Listing Rules, Share grants may only be made to eligible participants as defined in the amended Chapter 17 after 1 January 2023, being the effective date of such amendment.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the capitalisation issue (as defined in the Prospectus) and the global offering (as defined in the Prospectus), being 40,000,000 shares (representing approximately 7.14% of the issued shares as at the date of this annual report), excluding for this purpose shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). The maximum number of shares issued and which may fall to be issued upon exercise of the share options granted to each participant (including both exercised and outstanding share options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period is limited to 1% of the shares in issue at the date of grant, unless otherwise separately approved by shareholders in general meeting with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. Upon acceptance of the option, the grantee shall pay HK\$1.0 to the Company by way of consideration for the grant. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to the terms of grant of an option, an option may be exercised at any time after the date upon which the option is deemed to be granted and accepted in accordance with the vesting schedule. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised. The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of: (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of our shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

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. As of December 31, 2022, the remaining life of the Share Option Scheme was approximately six years and five and a half months.

No option of the Company was granted to the Company's employees and other eligible participants since the Adoption Date and up to the date of these consolidated financial statements.

Further details of the principal terms of the Share Option Scheme are set out in "Appendix V – Statutory and General Information – D. Share Option Scheme" of the Prospectus.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Wenhao (王文浩), aged 44, was appointed as executive Director, general manager and Chief Executive Officer of the Company on 13 February 2019. Mr. Wang is responsible for overseeing the daily operations of the Group.

Mr. Wang has over 20 years' of experience in property management. Prior to joining the Group, from May 2002 to May 2005, Mr. Wang served as assistant to the director of management department and customer service manager of Shenzhen Jindi Property Management Co., Ltd. (深圳市金地物業管理有限公司). From June 2005 to May 2007, Mr. Wang worked as a project manager of Beijing Angang Property Services Limited Company (北京安港物業服務有限公司) and was mainly responsible for providing pre-project property services as well as formulating project management plans and operation manuals. Mr. Wang was general manager of Beijing Hevol Property Services Company Limited (北京和泓物業服務有限公司) ("**Beijing Hevol Property Services**") from May 2007 to April 2018. From September 2015 to April 2018, Mr. Wang also served as a director and the director of the strategic development department of Beijing Hongsheng Investment Co., Ltd. (北京泓升投資有限責任公司).

Mr. Wang obtained a bachelor's degree in administrative management from The Open University of China (國家開放大學) in China in July 2019. Mr. Wang was accredited by China State Construction Engineering Corporation (中國建築工程總公司) as an electrical engineer in June 2011.

Ms. Hu Hongfang (胡洪芳), aged 55, was appointed as Director on 9 August 2018 and was redesignated as executive Director and appointed as Chief Financial Officer of the Company on 13 February 2019. Ms. Hu is responsible for the overall strategic planning, business development and financial management of the Group.

Prior to joining the Group, Ms. Hu served as assistant accountant of the Xuzhou West Station of the Jinan Bureau of the Ministry of Railways (鐵道部濟南局徐州鐵路西站) from August 1992 to March 2003. She was the manager of the finance department and accountant of the Xuzhou Railway Advertisement and Decoration Information Networks Co. Ltd. (徐州鐵路廣告裝飾信息網絡有限公司) from April 2003 to November 2005. From December 2005 to May 2007, Ms. Hu served as the deputy general manager and chief financial officer of Chongqing Qishan Shiye Co., Ltd. (重慶祺山實業有限公司). Ms. Hu has been serving as the executive director and general manager of Chongqing Hevol Property Services Company Limited (重慶和泓物業服務有限公司) since June 2007. Ms. Hu has also served as the chairman of Guizhou Furuiying Information Consultancy Limited (貴州福瑞盈信息諮詢有限公司) ("**Guizhou WFOE**") since September 2018, as a director of Hevol Group Limited and as a director and chairman of the board of Guizhou Hevol Abundance Property Management Limited (貴州和泓豐盈物業管理有限公司) ("**Hevol Abundance**") since August 2018.

Ms. Hu obtained a bachelor's degree in accounting from East China Jiaotong University (華東交通大學) in China in July 1991. Ms. Hu was accredited as an accountant by Ministry of Finance of the PRC in May 1996.

NON-EXECUTIVE DIRECTORS

Mr. Liu Jiang (劉江), aged 55, is the founder of the Group. He was appointed as Director on 28 May 2018 and was redesignated as non-executive Director and the Chairman of the Board on 13 February 2019. Mr. Liu is responsible for the provision of guidance for the overall development of the Group. Mr. Liu is the Chairman of the nomination committee of the Board.

Mr. Liu has over 28 years' of experience in property development and management. From February 1995 to March 2001, Mr. Liu worked in Beijing Longyang Real Estate Development Co., Ltd. (北京龍洋房地產開發有限公司) as deputy general manager. Mr. Liu has been serving as the chairman of Hevol Holding Group Limited (和泓控股集團有限公司) ("**Hevol Investment**") since March 2001. Mr. Liu is also the founder and controlling shareholder of Hevol Real Estate Group.

Mr. Liu has been a non-executive director of Ourgame International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 6899), since March 2015.

Mr. Liu obtained a bachelor's degree in accounting from East China Jiao Tong University (華東交通大學) in China in July 1991.

Mr. Zhou Wei (周煒), aged 49, was appointed as non-executive Director on 13 February 2019. Mr. Zhou is responsible for the provision of guidance for the overall development of the Group.

Prior to joining Hevol Real Estate Group in 2003, Mr. Zhou took up different positions in different design and architecture institution or companies. Mr. Zhou served as the general manager in the research and development centre of Hevol Real Estate Group Limited (和泓置地集團有限公司) ("**Hevol Real Estate**") from August 2003 to September 2015. Mr. Zhou served as the director of Beijing Hongsheng from September 2015 to April 2019 and has served as the vice president of Hevol Real Estate since April 2018. Mr. Zhou has served as director and general manager of Hevol Abundance since July 2018, and as director and general manager of Guizhou WFOE since September 2018.

Mr. Zhou obtained a bachelor's degree in architecture from the North China University of Technology (北方工業大學) in China in July 1995.

Biography of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Qian Hongji (錢紅驥), aged 47, was appointed as an independent non-executive Director on 14 June 2019. He is responsible for supervising and providing independent judgement to the Board. He is a member of the audit committee, nomination committee and remuneration committee of the Board.

From May 1999 to May 2004, Mr. Qian was a lawyer and a partner of Beijing Fenglian Licheng Law Firm (北京豐聯立成律師事務所). From May 2005 to present, Mr. Qian has worked at Beijing Dacheng Law Firm (北京大成律師事務所) as senior partner and global director.

Mr. Qian has been an independent non-executive director of China Biotech Services Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 8037), since March 2018.

Mr. Qian obtained a bachelor's degree in law from China Youth University of Political Studies (中國青年政治學院) in China in July 1998 and a master's degree in law from Peking University in China in January 2009. Mr. Qian is a practising lawyer in the PRC.

Mr. Fan Chi Chiu (范智超), aged 37, was appointed as an independent non-executive Director on 14 June 2019. He is responsible for supervising and providing independent judgement to the Board. He is the chairman of the audit committee.

Mr. Fan has over 14 years' of experience in accounting and corporate finance. Mr. Fan worked as a senior auditor of PricewaterhouseCoopers from October 2007 to June 2011 and an analyst in Barclays Investment Bank from July 2011 to February 2014. Mr. Fan was a finance director of Vantasia Holdings (H.K.) Limited from April 2014 to March 2015. Mr. Fan joined ELL Environment Holdings Limited, the shares of which are listed on the Stock Exchange (stock code 1395), in April 2015 as the financial controller and was the chief financial officer from June 2015 to September 2021. He was an executive director of Grace Wine Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 8146), from July 2017 to September 2021. He has been acting as a Chief Investment Officer of AB Builders Group Limited, the shares of which are listed on the Stock Exchange (stock code: 1615), since November 2021. He has also been acting as an independent non-executive director of (a) Shinelong Automotive Lightweight Application Limited, the shares of which are listed on the Stock Exchange (stock code: 1930), since June 2019; and (b) Weihai City Commercial Bank Co., Ltd., the shares of which are listed on the Stock Exchange (stock code: 9677), since June 2020.

Mr. Fan obtained his bachelor's degree in professional accountancy from the Chinese University of Hong Kong in December 2007. Mr. Fan was accredited as a certified public accountant by the Hong Kong Institute of Certified Public Accountants in January 2011.

Biography of Directors and Senior Management

Dr. Chen Lei (陳磊), aged 50, was appointed as an independent non-executive Director on 14 June 2019. He is responsible for supervising and providing independent judgement to the Board. He is a member of the audit committee and the remuneration committee.

Dr. Chen has over 13 years' of experience in accounting and management studies. He has been teaching at the Guanghua School of Management of Peking University since July 2008 and he is currently an associate professor of Accounting at the Guanghua School of Management, Peking University. Dr. Chen also serves as an associate editor for China Management Accounting Review (中國管理會計).

Dr. Chen has been an independent non-executive director of (a) Daqin Railway Co., Ltd. (大秦鐵路股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 601006), since May 2017; and (b) Dong Yi Ri Sheng Home Decoration Group Co., Ltd. (東易日盛家居裝飾集團股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002713), since August 2017. He acted as an independent non-executive director of (a) Beijing Dabeinong Technology Group Co., Ltd. (北京大北農科技集團有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002385), from December 2013 to February 2020; (b) HuaDian Heavy Industries Co., Ltd. (華電重工股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 601226), from June 2017 to February 2020; and (c) Dawning Information Industry Co., Ltd. (曙光信息產業股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 603019), since May 2015 to May 2021.

Dr. Chen obtained his bachelor's degree in international finance from Tsinghua University in China in July 1996. He also obtained his master's degree in business from Indiana University in the United States in September 1999 and doctor of philosophy in management science from the University of Texas at Dallas in August 2004. He was awarded the completion certificate for training in senior management of listed companies by the Shenzhen Stock Exchange in May 2012.

Biography of Directors and Senior Management

Dr. Li Yongrui (李永瑞), aged 52, was appointed as an independent non-executive Director on 14 June 2019. He is responsible for supervising and providing independent judgement to the Board. He is the chairman of the remuneration committee and a member of the nomination committee of the Board.

Dr. Li is currently an associate professor in School of Government Management of Beijing Normal University (北京師範大學). Dr. Li has been a lecturer in management studies in Beijing Normal University (北京師範大學) since July 2003 and an associate professor of Beijing Normal University (北京師範大學) since June 2005.

Dr. Li obtained his bachelor's degree in science from Guizhou Normal University (貴州師範大學) in China in July 1991 and master's degree in sport pedagogy from Liaoning Normal University (遼寧師範大學) in China in July 1997. Dr. Li graduated from Beijing Sport University (北京體育大學) in China with a doctor's degree in education in July 2001 and he was a psychology postdoctoral researcher at Beijing Normal University (北京師範大學) in China from July 2001 to July 2003.

SENIOR MANAGEMENT

Mr. Li Pengfei (李鵬飛), aged 48, was appointed as deputy general manager of the Company on 13 July 2021. Mr. Li is responsible for the daily operation and market development of the Group.

Prior to joining the Group, Mr. Li served as a director of marketing planning division of Hevol Real Estate Group from September 2003 to July 2015. From July 2015 to December 2019, Mr. Li worked as the President of Beijing Shequbanjing Information Technology Co., Ltd.* (北京社區半徑信息技術有限公司). Since January 2020, Mr. Li has served as the general manager of the Group's companies in Shanghai region.

Mr. Li obtained a bachelor's degree in industrial and civil architecture from Beijing Institute of Civil Engineering and Architecture in July 1996. Mr. Li also obtained his Executive Master of Business Administration in Northwest University in China in December 2017.

COMPANY SECRETARY

Mr. Lee Lap Keung (李立強), aged 40, was appointed as company secretary of the Company on 13 February 2019.

Mr. Lee worked at BDO Limited from September 2008 to February 2011 and his last position was senior auditor. From February 2011 to January 2012, Mr. Lee worked at Ernst & Young and his last position was senior auditor. Mr. Lee worked as an auditor at Mazars CPA Limited from March 2012 to May 2015 and his last position was assistant manager. From February 2017 to May 2017, Mr. Lee served as a compliance officer at Jimei Securities Limited. From June 2015 to August 2017, Mr. Lee worked at Starlight Culture Entertainment Group Limited, the shares of which are listed on the Stock Exchange (stock code: 1159), as a senior internal audit manager. Mr. Lee had been serving as an independent non-executive director of Palinda Group Holdings Limited (百利達集團控股有限公司), the shares of which are listed on the Stock Exchange (Stock code: 8179), since 22 February 2019 to 8 September 2022.

Mr. Lee obtained his bachelor's degree in accounting from the City University of Hong Kong in November 2008. Mr. Lee qualified as a Hong Kong Certified Public Accountant by the Hong Kong Institute of Certified Public Accountants in July 2012.

Corporate Governance Report

The board of directors (the “**Board**”) of Hevol Services Group Co. Limited (“**Hevol Services**” or the “**Company**”, together with its subsidiaries, the “**Group**”) is committed to maintaining high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders of the Company (the “**Shareholders**”), enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

During the year ended 31 December 2022, the Company has adopted and complied with the principles and code provisions set out in the Corporate Governance Code (“**CG Code**”) in Appendix 14 to the Listing Rules.

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 its codes of conduct regarding securities transactions by its Directors and employees (the “**Securities Dealing Code**”).

The Company has made specific enquiry of all Directors whether the Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2022 and all Directors confirmed that they have complied with the Model Code and the Securities Dealing Code throughout the said period.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, including dividend policy and risk management strategies. The management is delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group.

During the year ended 31 December 2022, the Company arranged for appropriate cover on Directors' and senior management' liability insurance policy to indemnify the Directors and senior management for liabilities arising from the corporate activities. The coverage and the amount insured under such policy are reviewed annually by the Company. No legal actions were made against any of the Directors in relation to their duties performed for the Company during the year.

BOARD COMPOSITION

As at 31 December 2022, the Board comprised eight Directors, consisting of two executive Directors, two non-executive Directors and four independent non-executive Directors.

During the year ended 31 December 2022, the Board comprises the following Directors:

Executive Directors

Mr. Wang Wenhao (*Chief Executive Officer*)
Ms. Hu Hongfang

Non-executive Director

Mr. Liu Jiang (*Chairman*)
Mr. Zhou Wei

Independent Non-executive Directors

Mr. Fan Chi Chiu
Mr. Qian Hongji
Dr. Chen Lei
Dr. Li Yongrui

Biographical details of the Directors and the senior management of the Company are disclosed in the section headed “Biography of Directors and Senior Management” of this annual report. Save as disclosed in such section, to the best knowledge of the Company, there are no other relationships (including financial, business, family or other material relationships) among the Directors and senior management of the Company.

During the year ended 31 December 2022, the Board had met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of at least three independent non-executive Directors (among which, at least one independent non-executive Director shall possess appropriate professional qualifications or accounting or related financial management expertise).

The Company has also met Rule 3.10A of the Listing Rules regarding the appointment of independent non-executive Directors representing at least one-third of the Board.

Pursuant to Code Provision B.1.4, the Board established mechanism(s) to ensure independent views and input are available to the Board, in particular, (i) independent non-executive Directors are encouraged to actively participate in the Board meetings; (ii) to discourage the re-election of long-serving independent non-executive Directors; (iii) the number of independent non-executive Directors must comply with the requirement under the Listing Rules; and (iv) the independent non-executive Directors shall devote sufficient time to discharge their duties as a Director. Furthermore, the Directors may access external independent professional advice to assist their performance of duties at the expense of the Company. The Board will review the implementation and effectiveness of such mechanism(s) on an annual basis.

For the year ended 31 December 2022, the company secretary of the Company confirmed that he had received not less than 15 hours of relevant professional training to update his knowledge and skills.

Independent Non-Executive Directors

The independent non-executive Directors play a significant role in the Board by virtue of their independent judgement and their views carry significant weight in the Board's decision. They bring an impartial view on the Company's strategies, performance and control.

All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board.

The Board also considers that the independent non-executive Directors can provide independent advice on the Company's business strategies, results and management so as to safeguard the interests of the Company and the Shareholders.

The Company has received an annual confirmation of independence from each independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

TRAINING AND SUPPORT FOR DIRECTORS

The Company has established procedures for training and development of Directors. Newly appointed Directors will be provided with comprehensive, formal and tailored induction on the first occasion of his/her appointment and, subsequently, necessary briefing and professional development so as to ensure the Directors have adequate understanding and strengthen their awareness of the business and operation of the Group, their responsibilities and obligations under the statutory and common law, the Listing Rules, laws and other regulatory requirements and governance policies, enable the Directors to discharge their duties properly. The company secretary maintains proper records of training attended by the Directors.

During the year ended 31 December 2022, the summary of training received by the Directors is as follows:

Directors	Type of trainings ⁽¹⁾
Mr. Liu Jiang (<i>Chairman</i>)	A/B
Mr. Wang Wenhao (<i>Chief Executive Officer</i>)	A/B
Ms. Hu Hongfang	A/B
Mr. Zhou Wei	A/B
Dr. Chen Lei	A/B
Dr. Li Yongrui	A/B
Mr. Fan Chi Chiu	A/B
Mr. Qian Hongji	A/B

Notes:

- (1) A: attending seminars and/or conferences relevant to the Directors' duties and responsibilities or corporate governance.
- B: reading materials relating to Directors' duties and responsibilities or corporate governance or regulatory updates.

BOARD MEETINGS

The Board and board committees (the “**Board Committees**”) meet regularly to discuss and formulate the overall strategy as well as the operation and financial performance of the Group. Directors may participate either in person or through electronic means of communications.

Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend regular meetings and discuss the matters on the agenda.

For other Board and Board Committees meetings, reasonable notices will be given. The agenda and accompanying Board papers are dispatched to the Directors or Board Committees members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When any Directors or Board Committees members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committees meetings are recorded in sufficient detail including the matters considered by the Board and the Board Committees and the decisions reached, and any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committees meeting are sent to the Directors for consideration within a reasonable time after the date on which the meeting was held. The minutes of the Board meetings are open for inspection by Directors.

During the year ended 31 December 2022, the Directors have made active contribution to the affairs of the Group and four Board meetings were held to consider, among other things, various transactions contemplated by the Group and to review and approve the interim and annual results of the Group.

The Company’s memorandum and articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at the meetings for approving transactions in which such Directors or any of their associates have a material interest.

As at the date of this annual report, it is considered that the Directors are well acknowledged to the business and the operation of the Group.

ATTENDANCE RECORDS OF THE DIRECTORS

During the year ended 31 December 2022, four Board meetings and three general meeting were held. Information regarding the attendance of Board meetings by individual Directors is as follows:

Name of members of the Board/ the Board Committees	Board meeting	Attendance/Number of meetings held			General meetings
		Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	
Executive Directors:					
Mr. Wang Wenhao (<i>Chief Executive Officer</i>)	4/4	N/A	N/A	N/A	3/3
Ms. Hu Hongfang	4/4	N/A	N/A	N/A	3/3
Non-executive Directors:					
Mr. Liu Jiang (<i>Chairman</i>)	4/4	N/A	N/A	1/1	3/3
Mr. Zhou Wei	4/4	N/A	N/A	N/A	3/3
Independent Non-executive Directors:					
Dr. Chen Lei	4/4	4/4	1/1	N/A	3/3
Dr. Li Yongrui	4/4	N/A	1/1	1/1	3/3
Mr. Fan Chi Chiu	4/4	4/4	N/A	N/A	3/3
Mr. Qian Hongji	4/4	4/4	1/1	1/1	3/3

Other than regular meetings, the Chairman has also met with non-executive Directors (including independent non-executive Directors) without the presence of executive Directors, to facilitate an open discussion among the non-executive Directors on issues relating to the Group.

Independent non-executive Directors who have no material interest in the transaction would be present at such Board meeting. The Board procedures are in compliance with the articles of associations of the Company (the "**Articles**"), as well as relevant rules and regulations. For the year ended 31 December 2022, there were no significant changes to the Articles.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Liu Jiang (“**Mr. Liu**”) is the Chairman and Mr. Wang Wenhao (“**Mr. Wang**”) is the Chief Executive Officer of the Company. The roles of the Chairman and Chief Executive Officer are segregated. Mr. Liu and Mr. Wang are not connected in any respect. The Chairman provides leadership for the Board and ensures that there is clear division of responsibilities at the Board level. The Chief Executive Officer is responsible for overseeing the day-to-day management of the Company, supervising the businesses of the Group and ensuring that Board Committees work smoothly and effectively.

DELEGATION BY THE BOARD

The Board reserves its right to decide all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company’s expense and are encouraged to access and consult with the Company’s senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

CORPORATE GOVERNANCE FUNCTIONS

The Board recognises that corporate governance should be the collective responsibility of the Directors and their corporate governance functions include:

- (a) to review and monitor the Company’s policies and practices on compliance with laws and regulatory requirements;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management;

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- (c) to develop, review and monitor the code of conduct and compliance manuals applicable to the employees and Directors;
- (d) to develop and review the Company's policies and practices on corporate governance and offer proposals and report relevant matters to the Board;
- (e) to review the Company's compliance with the corporate governance rules and disclosure in its corporate governance reports; and
- (f) to review and monitor the Company's compliance with its whistle-blowing policy.

The corporate governance report has been reviewed by the Board in the discharge of its corporate governance function.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company with an initial term of three years effective from 12 July 2019 (the "**Listing Date**"). The respective executive Directors or the Company may terminate the contract by serving not less than three months' written notice to the other party.

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company with a term of three years commencing from the Listing Date. In accordance with their respective letters of appointment, each of the independent non-executive Directors is entitled to receive a fixed amount of director's emoluments while the non-executive Directors shall not receive any remuneration.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company that is not determinable within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles, one-third of the Directors (or the nearest number but no less than one-third of the Directors, if the number of Directors is not a multiple of three (3)) are subject to retirement by rotation at each annual general meeting and each Director shall retire by rotation at least once every three years at an annual general meeting. Any Director newly appointed by the Board to fill a causal vacancy of the Board or serve as a new Director shall submit himself/herself for election by Shareholders at the next general meeting after appointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles. The Nomination Committee is responsible for reviewing the Board composition and offering proposals regarding the appointment, re-election and succession plans of Directors to the Board

BOARD COMMITTEES

As part of good corporate governance, the Board has set up a Remuneration Committee, an Audit Committee and a Nomination Committee for overseeing particular aspects of the Company's affairs. Each Committee has its own specific delegated authorities and operates within defined written terms of reference, which are posted on the websites of the Stock Exchange and the Company. All the Board Committees should report to the Board on their decisions or recommendations made.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Fan Chi Chiu, who acts as the chairman, Dr. Chen Lei and Mr. Qian Hongji.

The duties of the Audit Committee include, inter alia, reviewing and monitoring the financial reporting, risk management and internal control systems of the Company, and assisting the Board in fulfilling its responsibility over the audit; making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; and reviewing the Company's financial control, risk management and internal control systems. The Audit Committee should meet at least twice a year to discuss and review the financial information, the risk management and internal control systems and relevant matters. The proceedings of the Audit Committee meetings are the same as that of the Board meetings. The terms of reference of the Audit Committee are currently available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2022, the Audit Committee had reviewed the audit planning memorandums, the interim results as at 30 June 2022, financial reporting and compliance procedures, compliance and internal control report, risk management and internal control system, the remuneration of external auditors, the adequacy of resources, qualifications and experience of the employees of the Group's accounting and financial reporting function department, and their training plans and budget.

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The Company's annual results announcement and annual report for the year ended 31 December 2022 have been reviewed by the Audit Committee.

The Audit Committee held four meetings for the year ended 31 December 2022 and the attendance of each member is listed under the section headed "Attendance Records of the Directors" above on a named basis.

AUDITOR'S REMUNERATION

During the year ended 31 December 2022, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditor, is set out below:

Category of services	Fee paid/ payable <i>RMB'000</i>
Audit services	2,400
Non-audit services	1,500
Total	3,900

During the year ended 31 December 2022, significant non-audit service assignments included (i) review of the Company's interim report, with fee paid amounting to approximately RMB600,000; (ii) review of the annual reports of certain subsidiaries of the Company, with fee paid amounting to approximately RMB330,000; and (iii) assessment in relation to the acquisitions of certain subsidiaries of the Company, with fee paid amounting to approximately RMB290,000.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises three independent non-executive Directors, namely Dr. Li Yongrui, who acts as the chairman, Dr. Chen Lei and Mr. Qian Hongji.

The responsibilities and authorities of the Remuneration Committee are clearly defined by its terms of reference, the principal duties of which include:

- (i) making recommendations to the Board on the Company's policy and structure for the remuneration of all the Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (ii) reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board from time to time;

- (iii) making recommendations to the Board on the remuneration packages of executive Directors and senior management, including benefits in kind, pension rights compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (iv) making recommendations to the Board on the remuneration of non-executive Directors;
- (v) considering factors such as the level of remuneration paid by comparable companies, the time commitment and responsibilities of directors and senior management, and the employment conditions of the Company and its subsidiaries and consolidated affiliated entities;
- (vi) considering the level of remuneration required to attract and retain directors to manage the Company successfully;
- (vii) ensuring that no Director or any of his or her associates is involved in deciding his or her own remuneration. For the avoidance of doubt, members of the Committee must not be involved in deciding his or her own remuneration;
- (viii) reviewing and approving compensation payments and arrangements to Directors and senior management of the Company for loss or termination of their office or appointment, or dismissal or removal for misconduct and to assess whether the proposed payments or arrangements are fair, not excessive, reasonable, consistent with the relevant contractual terms, or otherwise appropriate; and
- (ix) advising shareholders of the Company on how to vote in respect of any service contracts of directors that require shareholders' approval in accordance with the Listing Rules.

The Board together with the Remuneration Committee monitors the performance of the executive Directors and the senior management. Such division of responsibilities ensures a balance of power. The Remuneration Committee shall meet at any time when necessary. The terms of reference of the Remuneration Committee are currently available on the websites of the Stock Exchange and the Company.

The Remuneration Committee held one meeting for the year ended 31 December 2022 and the attendance of each member is listed under the section headed "Attendance Records of the Directors" above on a named basis.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2022 are set out in note 11(a) to the consolidated financial statements in this annual report.

Details of the 5 individuals with the highest emoluments (including Directors, senior management and employees of the Group) are set out in note 11(b) to the consolidated financial statements in this annual report.

NOMINATION COMMITTEE

The Nomination Committee currently comprises three members, including one non-executive Director, namely Mr. Liu, who acts as the chairman, and two independent non-executive Directors, namely Dr. Li Yongrui and Mr. Qian Hongji.

The main duties of the Nomination Committee include, inter alia, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment and removal of Directors. The terms of reference of the Nomination Committee are currently available on the websites of the Stock Exchange and the Company.

The Nomination Committee held one meeting for the year ended 31 December 2022 and the attendance of each member is listed under the section headed "Attendance Records of the Directors" above on a named basis.

The Nomination Committee was primarily responsible for the following duties:

- (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (ii) developing the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship;
- (iii) identifying individuals who are suitably qualified to become a member of the Board and to select or make recommendations to the Board on the selection of individuals nominated for directorships;

- (iv) assessing the independence of independent non-executive directors; and
- (v) making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the Chairman and the chief executive of the Company.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity (“**Board Diversity Policy**”) in accordance with the requirements of the Listing Rules which sets out the approach to achieve diversity on the Board. The Board Diversity Policy is intended to set out the basic principles to ensure that members of the Board achieve an appropriate balance of skills, experience and perspectives to enhance the effective function of the Board and maintain a high standard of corporate governance.

Nominations and Appointments

All Board nominations and appointments shall be based on the principle of meritocracy, daily business needs and the benefits of diversity on the Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee is primarily responsible for identifying persons with suitable qualifications and selecting nominees to serve as director or to advise the Board on this.

Measurable Objectives

Selection of candidates will be based on a range of diversity and refer to the business model and specific needs of the Company, including but not limited to gender, age, ethnicity, language, cultural background, educational background, industry experience and professional experience. As at December 31, 2022, the Board comprised eight members, including two executive Directors, two non-executive Directors and four independent non-executive Directors. The Directors have balanced experience in overall strategic development, business and risk management as well as finance management. The Board members are of all ages, ranging from 37 to 55. The Board members are of diverse cultural and educational backgrounds, and are comprised of both male and female. After due consideration, the Board believes that the Company’s Board has met its measurable objectives and is consistent with the Board Diversity Policy. The Board plans to maintain at least 1 female Board member. The Board may identify and select suitable female Board members or successors from various sources, including but not limited to internal promotion, recommendation from Board members and external recruitment.

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Policy Statement

In order to achieve sustainable and balanced development, the Company regards the increment of diversification in board level as the key element to support its strategic goals and sustainable development. All appointments of the Board are based on the principle of meritocracy and considering the benefits of diversity of the Board.

Gender Diversity in the Workforce

As at December 31, 2022, male employees and female employees accounted for approximately 51.8% and 48.2% of all employees (including senior management) of the Group, respectively. To continue to achieve gender diversity in the workforce, we are committed to creating favourable conditions in our working environment to continue to attract both men and women to join the Group, thereby maintaining our status as a gender-balanced company. During the process, we may face the issue of whether the supply of personnel of a particular gender in the human resources market matches the academic qualifications, experience and skills required for positions within the Group. Despite these challenges, we will endeavour to maintain gender balance in the workforce.

Monitoring and Reporting

The Nomination Committee is responsible for reviewing the Board Diversity Policy, expanding and reviewing measurable objectives to ensure the implementation of the Board Diversity Policy and to monitor progress towards measurable objectives. The Nomination Committee reviews the Board Diversity Policy and measurable objectives from time to time, to ensure the Board continues to be effective. The Nomination Committee has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the year ended 31 December 2022.

NOMINATION POLICY

The Nomination Committee has also adopted a nomination policy (the “**Nomination Policy**”) which sets out the selection criteria and procedure of nominating, appointing and re-appointing a Director. The selection criteria used in assessing the suitability of a candidate include, inter alia, his/her academic background and professional qualifications, relevant industry experience, character and integrity and whether he/she can contribute to the diversity of the Board underpinned in the Board Diversity Policy. The procedure of appointing and re-appointing a Director is summarised as follows:

- nomination and invitation of suitable candidates by any member of the Nomination Committee or the Board;
- evaluation of the candidate by the Board based on all selection criteria as set out in the Nomination Policy and the Board Diversity Policy;
- performing due diligence in respect of each candidate and making recommendation for the Board’s consideration and approval;
- in case of nomination of an independent non-executive Director, assessing the candidate’s independence under the relevant Code Provisions and the Listing Rules;
- where nominating an independent non-executive Director for election at general meetings, having due consideration of matters under Code Provision A.5.5;
- in the context of re-appointment of retiring Directors, reviewing the candidate’s overall contribution and performance and making recommendations to the Board and/or the shareholders for consideration in connection with his/her re-election at general meetings; and
- convening a meeting of the Board to consider the appointment or re-appointment of the candidate as a Director.

DIRECTORS' RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the consolidated financial statements of the Company for the year ended 31 December 2022.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual reports and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided necessary explanation and information to the Board to enable it to make an informed assessment of the financial information and position of the Group presented the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

DEED OF NON-COMPETITION

Mr. Liu, the ultimate controlling shareholder of the Company (the "**Controlling Shareholder(s)**"), has entered in the Deed of Non-Competition dated 14 June 2019 in favour of the Company to the effect that he will not, and will procure his respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the business of the Company, further details of which are set out in the paragraph entitled "Deed of Non-Competition" in the prospectus of the Company dated 27 June 2019.

The Company has received the confirmation from Mr. Liu in respect of his compliance with the terms of the non-competition undertaking for the year ended 31 December 2022. The independent non-executive Directors had reviewed the compliance with and enforcement of the terms of the non-competition undertaking by Mr. Liu for the year ended 31 December 2022.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Company's risk management and internal control systems and for reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations.

Risk Management

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Company has developed and adopted risk management procedures and guidelines with defined authority for implementation by key business processes and office functions. The Board, together with the Audit Committee, should collect the information from the management system, include discussions of risk and oversight of the management of those risks into the agenda of Board meetings.

Internal Audit Function

During the year ended 31 December 2022, the Company has an internal control and compliance department to monitor the daily operation of the Group. The Group has also engaged an external internal control consultant to conduct independent review on specific areas of internal control system for the period from 1 January 2022 to 31 December 2022 on the Group and certain subsidiaries. The scope of review was previously determined and approved by the Audit Committee on behalf of the Board. The internal control consultant has submitted its report of findings and recommendations to the management of the Group. The management of the Group has responded and taken necessary actions and formulated plans to remedy the findings. The Audit Committee has reviewed the report prepared by the internal control consultant. In addition, the Company, through the Audit Committee, has also reviewed the adequacy of resources, qualifications and experience of staff of the accounting and finance department and internal audit department, and their training programmes and budget.

The Directors, through the Audit Committee, reviewed the adequacy and effectiveness of the risk management and internal control systems of the Group, at least annually, for the year ended 31 December 2022. After such review, the Board considered that the Company's risk management and internal control system were adequate and effective.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The shareholders of the Company approved the amendments to the previous amended and restated memorandum and articles of association of the Company (the “**Previous Articles of Association**”) and to adopt the new second amended and restated memorandum and articles of association of the Company (the “**New Articles of Association**”) by way of a special resolution in the annual general meeting of the Company held on 24 June 2022 in order to (i) bring the Previous Articles of Association in line with the relevant requirements of the Listing Rules (in particular the core standards set out in Appendix 3 thereto) and the laws of the Cayman Islands; and (ii) make other consequential and housekeeping amendments to the Previous Articles of Association. Details of the amendments are set in the announcement and circular of the Company dated 29 April 2022 and the announcement of the Company dated 24 June 2022.

Saved as disclosed, during the period from 1 January 2022 to 31 December 2022, no other amendment was made to the constitutional documents of the Company. A copy of the New Articles of Association is available on the websites of the Stock Exchange and the Company.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

Communications with Shareholders

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group’s business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable the Shareholders and investors to make informed investment decisions.

The annual general meeting of the Company provides an opportunity for Shareholders to communicate directly with the Directors. The Chairman and Directors of the Company will attend the annual general meeting to answer Shareholders’ questions. The auditor of the Company will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor’s report, the accounting policies and auditor independence.

The Company maintains a website at <http://www.hevolwy.com.cn/> with information and updates on the Company’s business developments and operations, list of Directors and their role and function, constitutional documents, terms of reference of the Board and its committees, procedures for nomination of Directors for election, Shareholder rights and communication policy, corporate governance practices, announcements, circulars and reports released to the Stock Exchange, and other information. Information on the Company’s website <http://www.hevolwy.com.cn/> will be updated from time to time.

The Board believes that the diversified shareholder communication channels provide Shareholders with effective access to information about the Group, and that Shareholders can contact the Board directly on their own initiative through the procedures of making inquiries to the Board. The Board, therefore, endorses the effectiveness of the shareholders' communication policy.

Shareholders' Rights

To safeguard the Shareholders' interests and rights, a separate resolution will be proposed for each issue (including election of individual Directors) at general meetings.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each Shareholders' meeting.

Convening of extraordinary general meetings and putting forward proposals

There are no provisions under the memorandum and articles of association and the Companies Law of the Cayman Islands regarding approval of Shareholders' proposal of new resolutions at the general meeting. The Shareholders who intend to propose a resolution may require the Company to convene an extraordinary general meeting pursuant to the procedures as stated below. Any Shareholder or Shareholders with the right to vote on the Company's general meetings and a paid-up capital of no less than one-tenth of the total on the date of depositing a written requisition shall have the right to call an extraordinary general meetings at any time by depositing a written requisition at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the Shareholder(s) depositing such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Shareholder(s) depositing such requisition may convene a meeting according to normal procedures and all expenses reasonably incurred by such Shareholder(s) due to the Board's failure to convene such a general meeting shall be compensated by the Company, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

As regards proposing a person for election as a Director, relevant procedures are available on the Company's website.

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Inquiries to the Board

The Company has established various and a wide range of communication channels with Shareholders. These include general meetings, annual and interim results, annual reports and interim reports, notices, announcements and circulars. In addition, the Company updates its website from time to time to keep the shareholders updated of the Company's recent development. Shareholders may at any time send their enquiries and concerns to the Board in writing, the contact details of which are contained on the Company's website.

For the avoidance of doubt, Shareholder(s) must provide his/her/their full name(s), contact details and identifications, in the originally signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of Shareholder(s) may be disclosed as required by law.

An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange (www.hkexnews.hk). Shareholders may refer to the Articles for further details of the rights of shareholders.

All resolutions put forward at Shareholders' meetings shall be voted by poll pursuant to the Listing Rules. The poll voting results will be posted on the websites of the Company and the Stock Exchange after each of Shareholders' meeting.

Environmental, Social and Governance Report

ABOUT THIS REPORT

Hevol Services Group Co. Limited (“**Hevol Services**”, the “**Company**”, together with its subsidiaries, collectively the “**Group**” or “**we/us/our**”) hereby published the Group’s fourth Environmental, Social and Governance Report (“**this Report**” or “**ESG Report**”) to its stakeholders to demonstrate our sustainability policy, management approaches, measures and performance over the past year.

REPORTING SCOPE AND PERIOD

The reporting period of this Report is from 1 January 2022 to 31 December 2022 (the “**Reporting Period**”), which is consistent with the financial year of the Group. Unless otherwise stated, the scope of disclosure in this Report covers our main businesses, i.e. property management services and related value-added services located in the People’s Republic of China (the “**PRC**”), and the environmental key performance indicators cover the headquarter of the Group in Beijing, and 90 core property management projects mainly managed by the Group. Compared with the scope of the report for the last year, during the Reporting Period, the Group excluded the Xixiandaicheng project and also expanded the Yueshan Lake project, and 9 projects acquired by the Group through acquisition of other property management companies were included in the scope, in order to disclose the Group’s key sustainability performance in a more comprehensive way.

BASIS OF PREPARATION

This Report is prepared in compliance with the Environmental, Social and Governance Reporting Guide of Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. According to the guide, the preparation of this Report follows the four principles of “materiality”, “quantitative”, “balance” and “consistency”.

Principles	Definition	Our responses
Materiality	The issues covered in this Report should reflect the significant impacts of the Group on the environment and society that assessments and decisions of stakeholders being influenced.	Through engaging with stakeholders as well as considering the Group’s business nature and development, material sustainability issues for the Group are identified.
Quantitative	This Report should disclose key performance indicators in a measurable way.	The Group discloses its key environmental and social performance indicators where appropriate.

Environmental, Social and Governance Report

Principles	Definition	Our responses
Balance	This Report should present all the information of the Group in an objective manner, to evaluate the comprehensive performance of the Group in a reasonable way.	The Group discloses achievements and challenges on identified material issues to fully reflect its sustainability performance.
Consistency	Preparation of this Report should be based on methods consistent with the one(s) used in previous year(s), or this Report should state the revised reporting methods, or illustrate other relevant factors that might affect meaningful comparison.	The reporting scope and reporting method are substantially consistent with those of the prior year(s), and this Report has also disclosed relevant comparative information.

LANGUAGE AND FORM OF THE REPORT

There are Chinese and English versions for this Report. If there is any discrepancy, the Chinese version prevails. An electronic version of this Report is available on the Stock Exchange website (<http://www.hkexnews.hk>) or our website (<http://www.hevolwy.com.cn>).

CONFIRMATION AND APPROVAL

This Report was approved by the Board of Directors on 31 March 2023.





FEEDBACK

The Group values the valuable opinions of every stakeholder and regards it as an important driving force for sustainable development. If you have any comments on this Report or the Group's sustainable development performance, please email to Hehongfuwu@hevol.com.cn.

ABOUT US

Founded in 2002 and listed on 12 July 2019, Hevol Services Group Co. Limited is a reputable comprehensive property service provider in the PRC, providing property management services, community value-added services and value-added services to non-property owners. It also serves as a director of China Property Management Institute and a director of Beijing Property Management Association and has the qualification of national first-class property service enterprise. As of 31 December 2022, we managed 291 property management projects in 39 cities in 16 provinces and municipalities with a total contracted GFA and total GFA under management of approximately 62.4 million sq.m. and approximately 51.4 million sq.m., respectively.

Environmental, Social and Governance Report

Our Businesses

Property management services

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

Community value-added services

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

Value-added services to non-property owners

The Group 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. It assists property developers to enhance brand value in an all-round way.

Corporate mission

Serving people with a shared passion

Corporate vision

To become the builder and leader of third-party property service platform in the PRC

Corporate tenet

Quality first, reputation as sincerity

Management-oriented, innovation as wisdom

Core values

Open, innovation and co-creation

Major Awards and honors in 2022

TOP32 in 2022 Top 100 Property Management Enterprises in China

2022 Growth Leading Enterprise of China Property Service Enterprises

TOP23 in 2022 China Top 100 Property Enterprises in respect of Service Satisfaction

China Top 100 Property Service Brands in 2022

2022 Leading Enterprise Development Speed TOP5 of Listed Property Companies

2022 Leading Enterprise Development Potential TOP5 of Listed Property Companies

2022 Property Service Market-Oriented Operation Leading Brand Companies of China



SUSTAINABILITY GOVERNANCE POLICY

As a reputable property service provider in the industry, the Group regards sustainable development as the foundation of corporate development. Through our influence, we are committed to integrating sustainable development elements into our business operations and business decisions, promoting the sustainable development of the environment and society, and creating a better environment and community for the next generation.

Sustainability Governance and Supervision by the Board

As the highest governance body of the Group, the Board assumes full responsibility for the Group's environmental, social and governance strategies and reporting. The Board delegates deputy general managers, representatives from various departments such as the property management department, the quality management department and the audit and supervision department to form a sustainability working group to assist the Board in implementing sustainability strategy and report the performance to the Board on a regular basis. The responsibilities of the sustainability working group include:

- Formulating, implementing and reporting the Group's ESG strategy, management policy, ESG indicators and targets
- Identifying, assessing and managing material ESG related issues (including business risks) and reporting the same to the Board
- Reporting ESG strategies, performance and progress in relation to ESG related targets and indicators
- Supervising, implementing and evaluating ESG related policies, procedures and measures to promote sustainable development
- Inspecting the applicability of sustainability strategies in addressing stakeholders' concerns
- Examining any ESG related violations and non-compliance with applicable laws, rules and regulations
- Reviewing and approving the Group's public reporting/ESG report on its sustainability performance

Sustainability Risk Management

Our Risk Management System provides guidance and framework for the Group’s risk management system. We identify and mitigate identified risks, including ESG related risks. We regularly review the progress and performance of sustainability. In order to ensure the effective implementation of ESG related risk response measures, we regularly identify ESG related risks such as climate change risks and supply chain ESG risks based on ESG megatrends and issues, peer analysis, collections of opinions from stakeholders and business nature, and rank them according to the degree of impact on the Group and possibility of each risk. We will formulate corresponding response strategies for major ESG risks, and regularly evaluate and supervise the effectiveness of the measures.

ENGAGEMENT OF STAKEHOLDERS

We have identified shareholders and investors, property owners and customers, employees, governments, subcontractors and suppliers and local communities as the key stakeholder category of the Group. We actively maintain close communication with our stakeholders, listen and respond in a timely manner to their opinions and expectations on the Group, so as to enhance our business and sustainability performance. We have established various communication channels to collect their opinions from various aspects. The following table details the Group’s stakeholder category, corresponding communication methods, major concerns of stakeholders and our response channels:

Stakeholder category	Communication methods	Major concerns	Our response channels
Shareholders and investors	<ul style="list-style-type: none"> – Convene general meetings – Release circulars, interim and annual reports – Disclose news of listed companies 	<ul style="list-style-type: none"> – Investment returns and growth – Protect the interests of shareholders and investors – Realize information transparency and efficient communication 	<ul style="list-style-type: none"> – Convene annual general meetings – Provide investors detailed information on the Group’s website – Timely release of circulars, interim and annual reports and notices of meetings

Environmental, Social and Governance Report

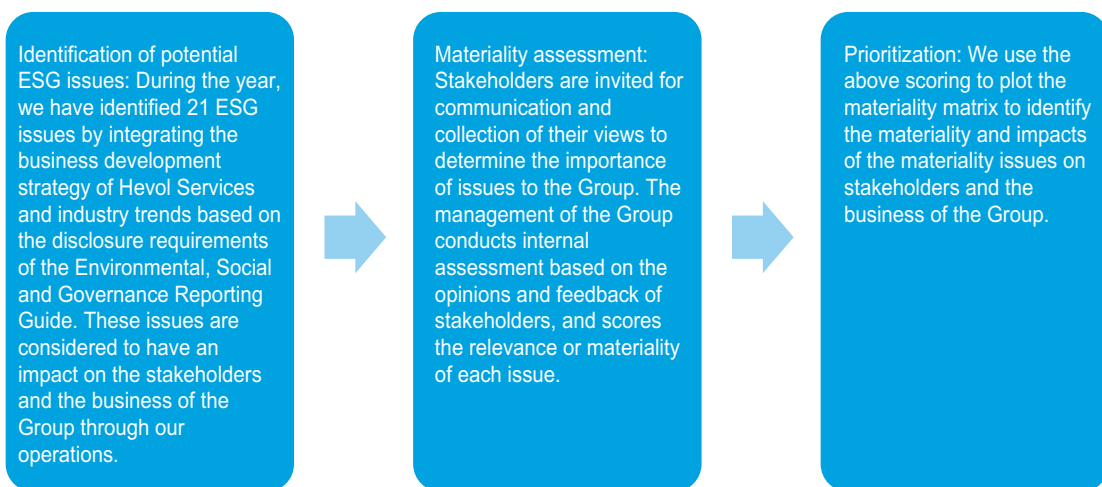
Stakeholder category	Communication methods	Major concerns	Our response channels
Property owners and customers	<ul style="list-style-type: none"> - One-on-one meetings - Customer communication meetings - Collect feedback from property owners and customers 	<ul style="list-style-type: none"> - High-quality services - Customer service and experience - Privacy protection - Handle opinions and complaints 	<ul style="list-style-type: none"> - Regularize and standardize services - Set up property management offices with locational convenience - Actively respond to the comments and complaints from property owners and customers - Take practical steps to protect customer privacy
Employees	<ul style="list-style-type: none"> - Various internal communication networks - Workplace 	<ul style="list-style-type: none"> - Salary and benefits - Career development - Equal Opportunity - Health and safety of employees 	<ul style="list-style-type: none"> - Establish a sound performance appraisal and compensation and welfare system - Care and welfare activities for staff - Arrange training courses according to employees' professional development needs - Staff mailboxes
Government	<ul style="list-style-type: none"> - Tax declaration - Report on policy implementation 	<ul style="list-style-type: none"> - Fulfil regulatory compliance requirement - Payment of taxes on time according to laws - Maintaining good relationships with the local governments 	<ul style="list-style-type: none"> - Strict comply with national laws and regulations - Full payment of taxes on time according to laws - Maintain dialogue with provincial, municipal and district governments, and understand local practices

Environmental, Social and Governance Report

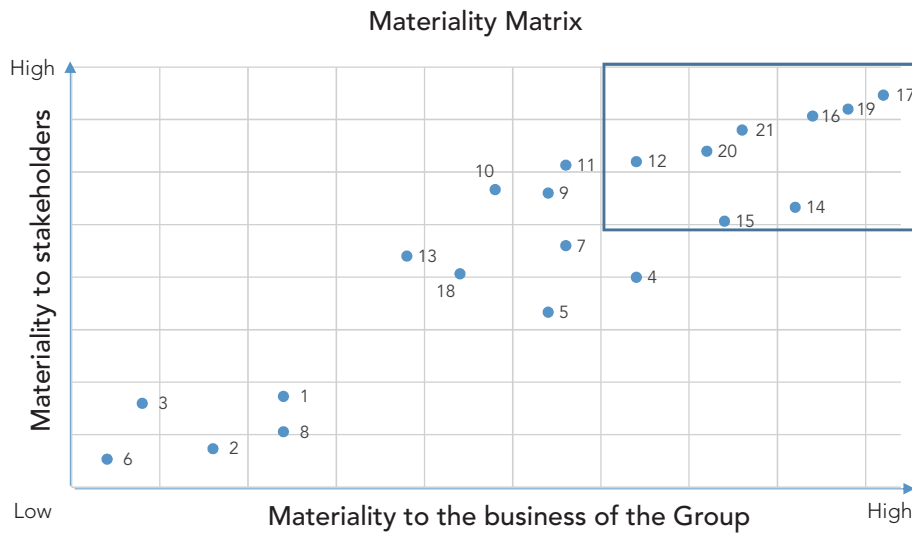
Stakeholder category	Communication methods	Major concerns	Our response channels
Sub-contractors and suppliers	<ul style="list-style-type: none"> Review and evaluate performance of sub-contractors and suppliers Communication meetings Information sharing 	<ul style="list-style-type: none"> Transparent process in selecting sub-contractors and suppliers Business integrity Performance of contracts Resources sharing 	<ul style="list-style-type: none"> Establish an open and transparent bidding and procurement policy Regularly assess the service quality of sub-contractors and suppliers Convene meetings with qualified suppliers
Local community	<ul style="list-style-type: none"> Organize/participate in community activities Media publicity Support local development 	<ul style="list-style-type: none"> Promote local employment development Community culture and services Community safety management Environmental protection 	<ul style="list-style-type: none"> Organize ad hoc recreational activities in residential communities Create career opportunities Promote energy conservation and environmental protection

MATERIALITY ASSESSMENT

During the Reporting Period, we also commissioned an independent third-party consultant to conduct a stakeholder survey and invited stakeholders to prioritize the importance of various ESG issues to the Group, so as to assist us in identifying and managing the Group's material sustainability issues.



Environmental, Social and Governance Report



No.	Issues	No.	Issues
1	Air pollutants emission	12	Employee development
2	Greenhouse gas emission	13	Prohibition of hiring child and forced labour
3	Waste treatment and recycling	14	Process of selecting and evaluating suppliers
4	Energy consumption	15	Environmental and social risk management of supply chain
5	Water consumption	16	Service quality and safety
6	Paper consumption	17	Customer service and satisfaction
7	Environmental risk management	18	Protection of intellectual property
8	Climate changes	19	Customer data privacy and data security
9	Equal opportunity	20	Anti-corruption and anti-money laundering
10	Employee benefits	21	Community response and public engagement
11	Occupational health and safety		



Based on the above materiality matrix, we have identified 9 issues, namely employee development, process of selecting and evaluating suppliers, environmental and social risk management of supply chain, service quality and safety, customer service and satisfaction, customer data privacy and data security, anti-corruption and anti-money laundering, and community response and public engagement as key issues, which will be highlighted in this Report.

ENVIRONMENTAL PROTECTION

We are committed to building a better and greener community for the next generation. We strictly abide by relevant environmental laws and regulations, including but not limited to the Law on the Prevention and Control of Air Pollution of PRC, the Environmental Protection laws of PRC, the Law on the Prevention and Control of Water Pollution of PRC, the Water Law of the PRC, the National List of Hazardous Wastes, the Administrative

Measures for Transfer of Hazardous Wastes, and the Law of PRC on the Prevention and Control of Solid Waste Pollution. The Group has obtained ISO14001:2015 Environmental Management System certification, and actively manages the Group's environmental performance through a comprehensive environmental management system, including the Administrative Regulations on Domestic Waste Classification, the Administrative Regulations on Energy Conservation and Consumption Reduction and the Pollutant Control Procedures.

During the Reporting Period, we were not aware of any serious violations of relevant environmental laws and regulations.

Environmental, Social and Governance Report

Environmental Objectives

To strengthen environmental performance management, we have set four environmental objectives and actively implement them through various plans. During the Reporting Period, we made good progress towards each objective.

Indicators	Objectives	Initiatives implemented	Progress during the Reporting Period
Greenhouse gas emissions	Reduce electricity consumption in offices and common areas of the projects	<ul style="list-style-type: none"> Adopted zoning control for public lighting system and reduce consumption within reasonable range Post electricity-saving labels in office areas to strengthen employees' awareness of saving electricity Prioritized tools which facilitate energy saving and emission reduction in purchasing electronic equipment 	In progress
Wastes	Improve measures of waste separation and recycling	<ul style="list-style-type: none"> Disused computers, monitors, waste ink cartridges and other garbage are sorted for collection Transported to relevant professional institutions for recycling Office wastes are collected for centralized recycling to reduce the disposal rate of waste 	In progress
Energy use	Raise employees' awareness of energy conservation	<ul style="list-style-type: none"> Encouraged employees to switch off lights, air conditioners and office equipment before leaving work Reduced the use of unnecessary lighting systems in office areas Post electricity-saving labels in office areas to strengthen employees' concerns for energy conservation and emission reduction 	In progress
Water consumption	Reduce water consumption in offices and common areas of the projects	<ul style="list-style-type: none"> Drip and spray irrigation is adopted for property management projects to reduce water consumption Water saving posters are in place in office areas 	In progress

Air and Greenhouse Gas Emissions

We pay close attention to the Group's air and greenhouse gas emissions. In daily operations, the Group's canteens, generators, weeders, brush cutters, hedge trimmers, rotary tillers and other equipment consume energy, such as liquefied petroleum gas, natural gas, biodiesel and diesel, which generate air and direct greenhouse gas emissions. Indirect greenhouse gas emissions are generated from purchased electricity that supports daily business operations, while other indirect emissions are generated from commercial aviation.

In order to reduce the Group's carbon footprint and implement the principle of environmental protection, we actively take the following measures:

- Encourage employees to use video conferencing or teleconferencing as much as possible to replace commercial air travel, thereby reducing greenhouse gas emissions
- Encourage employees to use public transport and shared vehicles as much as possible
- Proactively green project communities, and replant green area exceeded 1,000,000 square meters during the year, including more than 1,400,000 plants, such as holly, sweet-scented osmanthus, hibiscus rosa-sinensis, spider orchids, veronica peregrina and trees

KPIs	Unit	2022	2021
Air emissions	Nitrogen oxides	kg	132.47
	Sulfur oxides	kg	3.58
	Particulate matter	kg	266.54
Greenhouse gas emissions	Greenhouse gas emissions (Scope 1) ¹	tonnes of CO ₂ e	1,378.84
	Reduction of greenhouse gas	tonnes of CO ₂ e	1.79
	Greenhouse gas emissions (Scope 2) ²	tonnes of CO ₂ e	34,103.44
	Greenhouse gas emissions (Scope 3) ³	tonnes of CO ₂ e	664.35
	Total greenhouse gas emissions	tonnes of CO ₂ e	36,146.63
	Greenhouse gas emissions intensity	tonnes of CO ₂ e/ million m ²	1,814.25

¹ Scope 1 covers direct greenhouse gas emissions from operations that are owned or controlled by the Group.

² Scope 2 covers "energy indirect" greenhouse gas emissions resulting from electricity and heat (purchased or acquired) consumed within the Group.

³ Scope 3 covers all other indirect greenhouse gas emissions that occur outside the Group, including paper waste disposed of at landfills, electricity used for processing fresh water and sewage by government departments, and indirect greenhouse gas emissions from business air travel by employees.

Environmental, Social and Governance Report

Waste

Based on the nature of our business, we generate non-hazardous wastes including household waste, paper and food waste as well as a small amount of waste light bulbs, ink cartridges, toner cartridges, batteries and disinfection medicine containers and other hazardous wastes. In order to avoid significant impact on the surrounding environment caused by waste discharge, we properly manage all wastes by collecting wastes separately and handing them over to a qualified third party for cleaning and disposal. We advocate the concept of reducing waste from the source, encourage employees to use online channels for office as much as possible to reduce paper consumption, and guide them to recycle waste paper, plastics, metals and other materials.

The following is the waste discharge data of the Group during the Reporting Period and 2021:

KPIs	Unit	2022	2021	
Non-hazardous wastes	Total non-hazardous wastes	tonnes	96.69	48.13
	Non-hazardous waste intensity	tonnes/million m ²	3.60	2.42
	Disposal amount of non-hazardous wastes	tonnes	92.12	47.63
	Recycled amount of non-hazardous wastes	tonnes	4.57	0.50
Hazardous wastes	Total hazardous wastes	tonnes	0.50	1.40
	Hazardous waste intensity	tonnes/million m ²	0.02	0.07



Energy

Based on the nature of our business, we consume purchased electricity to support the electricity demand in our operating locations. We also consume gasoline, liquefied petroleum gas, natural gas and biodiesel to support the energy needs of vehicles, canteens, generators, weeders, brush cutters, hedge trimmers and rotary tillers. In order to reduce the Group's carbon footprint, we vigorously promote the concept of energy-saving, reduce energy consumption and improve energy efficiency through the following measures:

- Adopt zoning control for public lighting system to reduce electricity waste
- Procure equipment with higher energy efficiency whenever possible
- Advocate employees to switch off lights, air conditioners and other electronic equipment before leaving work
- Air conditioners in office areas are set according to seasons and climates: 26 degrees Celsius in summer and 22 degrees Celsius in winter
- Employees are encouraged to use public transportation and share vehicles as much as possible
- Post electricity-saving labels in office areas to strengthen employees' awareness of saving electricity

Environmental, Social and Governance Report

The following is the energy consumption data of the Group during the Reporting Period and 2021:

KPIs		Unit	2022	2021
Energy consumption	Purchased electricity	MWh	73,645.63	55,898.12
	Natural gas	MWh	280.12	166.93
	Biodiesel	MWh	78.36	94.60
	Liquefied petroleum gas	MWh	130.54	112.33
	Diesel	MWh	20.41	100.82
	Gasoline	MWh	193.65	232.50
	Total energy consumption	MWh	74,348.71	56,605.30
	Energy consumption intensity	MWh/million m ²	2,769.02	2,841.10

Water Consumption

Our water is mainly provided by the municipal water supply company for greening, cleaning and daily office purposes. During the Reporting Period, we have not encountered any problems in obtaining suitable water sources. We actively advocate the concept of cherishing water resources and require employees to save water and improve water efficiency. Our water conservation measures include:

- Adjust the frequency and amount of water used for greening and cleaning in a timely manner
- Set switches or locks at the water outlets to reduce waste of water resources
- Regularly check and maintain water equipment, and monitor the water consumption in public areas
- Adopt drip and spray irrigation in public areas of properties to reduce water consumption
- Put up water saving posters in the office area to remind employees to save water

Environmental, Social and Governance Report

KPIs		Unit	2022	2021
Water consumption	Total water consumption	m ³	2,069,778.27	1,314,001.69
	Water consumption intensity	m ³ /million m ²	79,749.86	67,548.94

Climate Changes

In response to more frequent weather events, such as typhoons, floods, forest fires, etc., we have incorporated the climate-related issues into Group's risk management process, identified and managed climate change risks, including physical and transition risks, and related opportunities with reference to the Task Force on Climate-related Financial Disclosures ("TCFD") recommended framework, and made appropriate disclosures. The risks we identify and the relevant countermeasures include:

	Risk	Impact	Countermeasures
Physical risk	Extreme weather events	The facilities, equipment and environment of properties, such as walls and elevators, are easily damaged due to extreme weather events including typhoons and water logging, thus requiring repairs and maintenance, increasing the cost of repairs and maintenance and preventive measures	Regular inspections are carried out on facilities involving drainage, power distribution, and public areas, and abnormal situations are dealt with in a timely manner to minimize the risk of damage to equipment and facilities caused by extreme weather. In the event of extreme special weather, timely measures will be taken to protect equipment and facilities in accordance with the Emergency Response Plan.
		Extreme weather events including typhoons and water logging may cause water leakage, resulting in damage to property facilities and equipment. Repairs and maintenance will lead to increased operating costs, increased capital costs or write-off and early retirement of existing assets, and reduced tenant/occupant satisfaction	Regular inspection and maintenance are conducted for the operation of equipment and facilities, and close attention is paid to changes in water volume.

Environmental, Social and Governance Report

	Risk	Impact	Countermeasures
Transition risks	Low carbon economy transition	The market demand for low-carbon building materials and measures has increased. In order to meet the market demand, the expenditure on building materials has increased, and the demand for products and services has decreased due to the shift of customer demand	We have formulated internal policies to standardize supplier selection procedures, and urge suppliers to prioritize low-carbon building materials. Meanwhile, we encourage all projects to take energy-saving and emission-reduction measures, such as replacing traditional lamps with LED lamps or using induction lamps, giving priority to energy-saving equipment, and implementing paperless office.

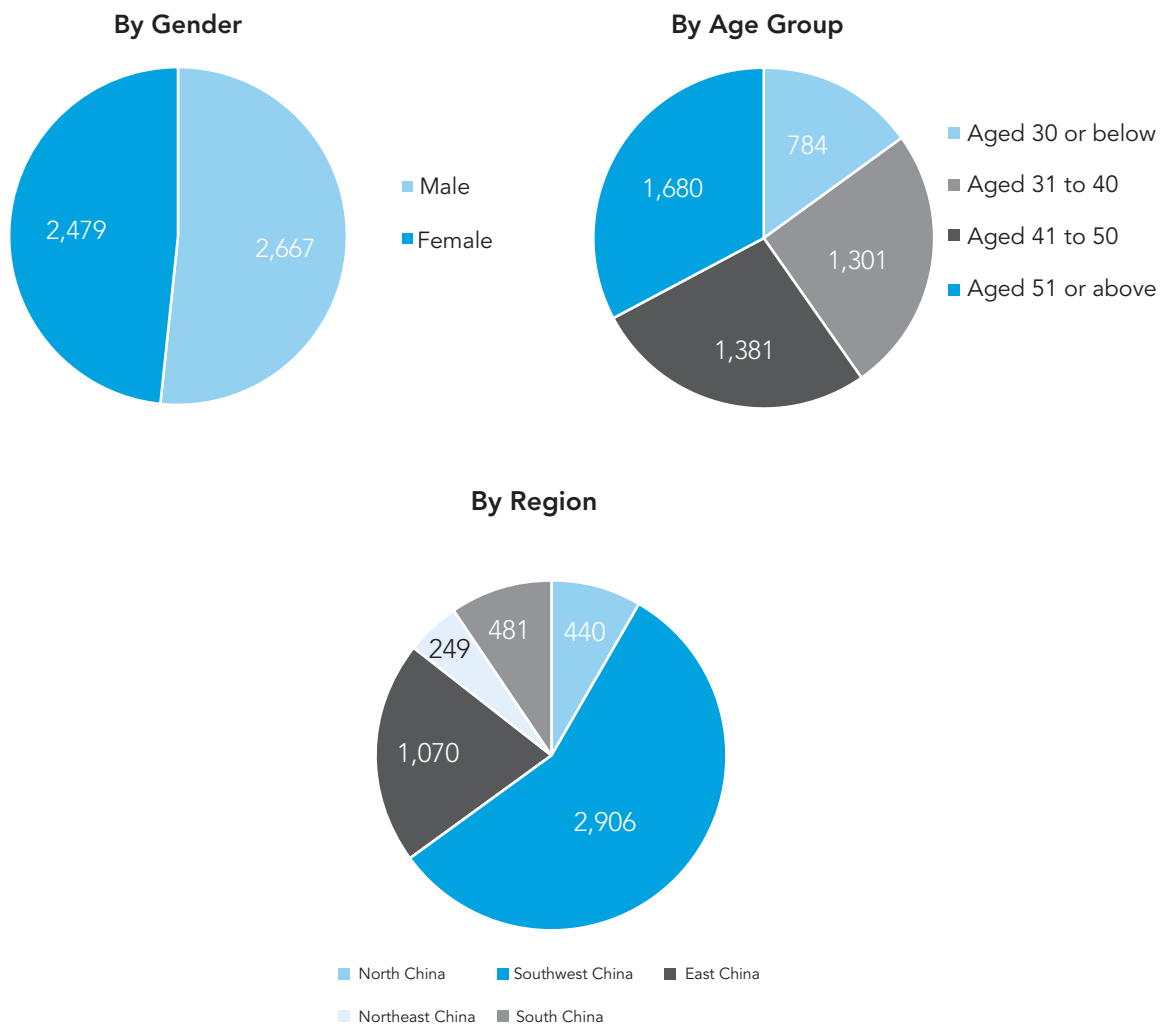
EMPLOYMENT

We adhere to the people-oriented employment principle, treat every employee equally, provide a harmonious, inclusive, equal working environment for our employees, and prohibit any form of discrimination. At the same time, we abide by the laws and regulations related to employment, including but not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Law of the PRC on Promotion of Employment, the Law of the PRC on the Prevention and Control of Occupational Diseases and the Regulations on Prohibition of the Use of Child Labour, etc. We provide employees with competitive remuneration and benefits, provide adequate career training and development opportunities, and are committed to taking care of their physical and mental health, so that employees can grow together with the Group.

During the Reporting Period, the Group was not involved in any major violations with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, vacation, equal opportunity, diversity, anti-discrimination, other treatment and benefits.

Employment Overview

As at 31 December 2022, the Group employed a total of 5,146 employees, all of whom were full-time employees. The number of employees and turnover rates by gender, age, function and region are as follows:



Environmental, Social and Governance Report

Employee turnover rate

By gender

Male	28.97%
Female	25.02%

By region

North China	20.00%
Southwest China	28.97%
East China	19.67%
South China	34.65%
Northeast China	29.26%

By age group

Under 30	48.15%
31-40	23.47%
41-50	19.15%
Above 51	21.53%

Recruitment

We have formulated the Labour Protection Management System of Hevol Services Group while promoting the principles of diversity and equality, respecting the background and culture of each employee, and adopting a “zero” tolerance principle for workplace discrimination based on gender, age, marital status, family status, pregnancy, disability, race or religion, etc. We recruit the most suitable talents to join the Group through online recruitment, media recruitment, internal employee competition, job fairs, campus recruitment and other channels.

Remuneration and Benefits

We provide competitive remuneration and benefits for employees to take care of their well-being. We regulate the management of remuneration and benefits through the Remuneration and Benefits Management Rules of Hevol Services Group, the Social Insurance and Housing Provident Fund Management Rules of Hevol Services Group and the Attendance and Leaves Management Rules of Hevol Services Group. The Group reviews remuneration and benefits system from time to time to effectively attract and retain the talent. We pay social insurance and housing provident fund for our employees in accordance with the Social Insurance Law of the PRC. In addition, employees can also enjoy the following benefits:



Sick leave	Health checks
Work injury leave	Labour protection supplies
Personal leave	Overtime pay
Marriage leave	Meal subsidies
Bereavement leave	Communication subsidies
Maternity leave	Transportation subsidies
Abortion leave	Holiday fees
Breastfeeding leave	Birthday fees
Paid annual leave	Labour protection subsidies

In addition to providing diversified benefits, we also hold a variety of employee activities from time to time to enhance employees' sense of belonging to the Group. We are also committed to establishing open and transparent work culture. We communicate with our employees in two-way through channels such as discussions, interviews and online communication to understand their opinions and expectations, and make appropriate responses to make the Group become the employer of choice for our employees.

Health and Safety

The Group is committed to providing employees with a healthy, safe and comfortable working environment and strictly complies with relevant laws and regulations such as the Law of the PRC on the Prevention and Control of Occupational Diseases and the Regulation on Industrial Injury Insurance. We have obtained the ISO45001: 2018 Occupational Health and Safety management system certification and formulated comprehensive occupational health and safety rules, including but not limited to the Emergency Response Plan, the Labour Protection Management Rules of Hevol Services Group and the Safety Protection Control Procedures of Hevol Services Group, etc., to guide employees to implement strict occupational health and safety management and protect the safety and health of employees. During the Reporting Period, we were not aware of any major violations with laws and regulations of the Group relating to providing a safe working environment and protecting employees from occupational hazards.

The measures of occupational health and safety taken by us include but are not limited to:

 <p>Health</p>	<ul style="list-style-type: none"> • Health check-ups for new employees • Health check-ups for staff susceptible to occupational disease and at special positions • Annual gynecological check-ups for female employees • Annual health check-ups for all staff of the Group • Provision of necessary labour protection equipment for employees such as uniforms, electrician shoes, gloves, cooling supplies and insect repellent, etc.
 <p>Safety</p>	<ul style="list-style-type: none"> • Prevent and respond to emergencies according to the Emergency Response Plan, including traffic accidents, casualties, natural disasters, power outages, water outages, explosions, elevator failures, etc. • Regular identify safety risks, such as electricity leakage, car accident, heat stroke, fire, etc., and develop control measures to reduce the possibility of risk occurrence and the impact on the Group's employees and community residents

Environmental, Social and Governance Report

During the Reporting Period, the Group recorded 17 minor work-related injuries, mainly involving falls, bumps, sprains, smashes, etc.. The Group also visited the injured employees and paid close attention to the recovery of the injured employees.

Number of work-related fatality over the past three years	Number of work-related injuries in 2022	Lost working days due to work-related injuries in 2022
1	17	1,111

Development and Training

In order to maintain and enhance our business development, we encourage our employees to continue to acquire the latest industry knowledge and technology for continuous improvement. We have formulated the Training Management System to provide employees with adequate training opportunities. The human resources department evaluates the learning needs of employees every year, formulates training plans according to the Group's business development strategy and market development, and arranges various internal and external trainings to improve employees' professional knowledge and skills, management ability, comprehensive quality, etc. During the Reporting Period, a total of more than 144,000 hours of training courses were provided, covering job skills training, personal quality, customer service, safety training, energy conservation and consumption reduction training, etc..

Average training hours

Male	27.32 hours
Female	28.76 hours
Management	25.05 hours
Middle management	28.84 hours
Entry-level employees	28.02 hours

Training ratio

Male	51.59%
Female	48.41%
Management	1.83%
Middle management	3.34%
Entry-level employees	94.83%

Environmental, Social and Governance Report

Based on the core values of “open, innovation and co-creation”, we hope that our employees will grow together with the Group. Therefore, we attach great importance to the career development of employees within the Group, and have a sound career development ladder to match the career development path of employees. When there is a job vacancy, we follow the principle of “internal employees first and external employees second” and give priority to existing employees who are suitable. We have established the Performance Appraisal Management System to conduct monthly, quarterly and annual performance appraisals. The assessment indicators include financial indicators, customer service, management, training and learning, etc. The appraisal results will be used as an important reference for employees’ position adjustment and bonus distribution.

Labour Standards

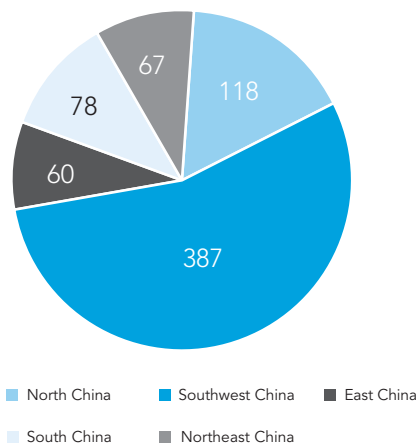
The Group strictly prohibits the employment of child labour and forced labour and complies with the Law of the PRC on the Protection of Minors and the Provisions on the Prohibition of Using Child Labour. We have formulated the Labour Protection Management Rules of Hevol Services Group to verify the valid identity documents of job applicants during the process of recruitment, employment approval and reporting to ensure that they have reached legal working age and are not child labour. To avoid forced labour, we also set out the terms on working hours, leave, overtime compensation and termination in our Employee Code of Conduct and other human resources-related rules. Employees work 40 hours per week. If employees need to work overtime, we will provide overtime pay and transportation allowances in accordance with labour regulations.

If violations are found, the Group will immediately take child and forced labour away from the workplace and provide appropriate assistance. The Group will also report to relevant departments, and review and improve the vulnerabilities in employment practises. During the Reporting Period, the Group was not aware of any child or forced labour in the workplace.

SUPPLY CHAIN MANAGEMENT

We will cooperate with suppliers of services such as security, cleaning and construction, as well as suppliers for office supplies. As of 31 December 2022, the Group cooperated with a total of 710 suppliers, all of which are located in mainland China. The distribution of suppliers by region is as follows:

By region



As a leader in the industry, we are committed to working with suppliers to promote the sustainable development of the supply chain through our influence. We will give priority to the procurement of more environmentally friendly products, such as electric hedge trimmers, brush cutters, micro-sprinkler irrigation facilities, etc., and actively introduce electric vehicle charging equipment in property projects, hoping to popularise electric vehicles and reduce fuel consumption. When selecting new suppliers, we will evaluate suppliers comprehensively, and the evaluation criteria cover environmental and social elements, including child labour and forced labour.

During the Reporting Period, we conducted a risk assessment on the environmental and social risks of our major suppliers. The Board and management are responsible for monitoring the environmental and social risks of the entire supply chain, reviewing the effectiveness of management measures, and continuously optimizing the risk management rules of suppliers. Based on the risk assessment results, we did not find any suppliers rated as high risk.

Environmental, Social and Governance Report

Apart from focusing on the environmental and social risks of our suppliers, we also attach great importance to the quality of their products and services. The Group has formulated systems such as the Tender and Procurement Management Procedures, the Supplier Management Regulations and the Qualified Supplier Management Control Procedures to regulate the selection, evaluation and management procedures of new and existing suppliers. We will conduct an on-site inspection of candidate suppliers to check their qualifications, reputation, work quality, business integrity, safety level, system certification, working environment and other areas. For existing suppliers, we also conduct monthly performance assessments and comprehensive performance assessments to ensure that they meet our requirements. The assessment scope includes:

- Service Quality
- Safety Responsibility
- Personnel Management
- Coordination
- Service Attitude
- Satisfaction Level of Property Owners and Customers
- Complaints

If there is any quality, safety, security and fire accident of a supplier in the evaluation process, we will immediately require the suppliers to rectify the problems. In case of major problems or continuously failing to meet standards, we will consider terminating the cooperation with these suppliers. During the Reporting Period, we conducted on-site audits for 470 existing suppliers, representing approximately 66% of the total number of existing suppliers.

PRODUCT RESPONSIBILITY

Adhering to the customer-oriented tenet, we are committed to providing the best property management services to property owners and customers. We have complied with laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided, including but not limited to the Regulations on Property Management, the Law on Protection of Consumer Rights and Interests of the PRC, the Advertising Law of the PRC, etc., and have formulated comprehensive quality management systems to maintain high-quality service quality and meet or even exceed customer's expectations.

Due to the nature of business, advertising, product labelling and intellectual property are not material issues to the Group.

During the Reporting Period, we were not aware of any material violations of laws and regulations related to product responsibility.

Service Quality

In order to maintain high-quality service, we have obtained ISO9001: 2015 Quality Management System certification, and standardised the service process and standards of employees through relevant systems such as the White Paper on Service Standards of Hevol Services Group, the Property Service Business Management Control Procedures and the Quality Inspection Management Control Procedures. The quality management department of the Group conducts monthly quality inspection on each property, including self-inspection by the property company, inspection by the quality management department and national inspection, to comprehensively evaluate the services of each property project to ensure compliance with standards.



Environmental, Social and Governance Report

Customer Communication

In order to continuously improve the quality of our services, we strive to maintain close communication with property owners and customers to collect their opinions and expectations. We collect customer feedback through the customer feedback page on the official website, telephone, online chat APP, public account and email. Relevant personnel will handle customer complaints in a timely manner in accordance with the Procedures for Handling Complaints from Property Owners and Customers of Hevol Services Group. For complaints about construction management, environmental management, customer service and safety management, we will inform the project leader within one hour upon receipt of such complaint and contact the property owner within one hour and provide a solution within 24 hours. In case of material or collective complaints, we will inform the project leader within 0.5 hour and communicate with the party involved in a timely manner. We have also formulated the Procedures for Assessment and Control on Customers' Satisfaction, inviting property owners to participate in satisfaction surveys every year to understand their opinions on service quality and respond to the questions raised by property owners in a timely manner.

During the Reporting Period, the Group received 702 complaints on products and services, all of which were handled in a timely manner.

Safety Management

Protecting the safety of property owners and customers is one of our priorities. We have formulated the Regulations on Tour Inspection and Examination of Equipment Facilities and the Emergency Response Plan. We regularly inspect and maintain equipment and facilities such as fire escapes, fire fighting equipment, and underground spaces to identify safety risks. At the same time, we prevent and respond to emergencies such as fires, extreme weather events, traffic accidents, crimes and equipment failures to ensure the safety of the environment and personnel. Safety and fire drills are conducted regularly for each property project to ensure that relevant personnel possess relevant safety knowledge and skills.



Privacy Protection

In order to protect the privacy of property owners and customers at all times, we have formulated a series of privacy protection systems, including the Confidentiality Management Rules and the Regulation on Management of Documents of Hevol Services Group, requiring relevant employees and partners to sign confidentiality agreements, and not to disclose the information of property owners and customers to third parties without authorization, including but not limited to the property owners' name, phone number, ID card number, address, and copies of certificates.

Approval is required if the relevant personnel need to use such information. We have also formulated a comprehensive information network security system to ensure data security. In case of data leakage, follow-up actions and investigations will be carried out in a timely manner to prevent the recurrence of similar incidents. During the Reporting Period, we were not aware of any complaints in relation to breaches of customer privacy or leak of customer information.

Due to the nature of business, intellectual property right is not one of the material issues of the Group.

ANTI-CORRUPTION

The Group strictly abides by the laws and regulations related to anti-corruption, maintains business ethics and integrity, builds a healthy and honest corporate culture, and eliminates all corruption and other violations of laws and regulations such as bribery, fraud, extortion and money laundering, strictly complying with the relevant laws and regulations such as the Criminal Law of the PRC, the Anti-Money Laundering Law of the PRC, the Anti-Unfair Competition Law of the PRC and the Company Law of the PRC.

We have formulated the Corporate Anti-Fraud Rules, requiring employees to uphold the highest ethical standards at all times, and not to accept gifts or benefits, gifts or entertainment from other third parties. The audit department and relevant personnel are assigned to strictly deal with whistle-blowing involving professional ethics issues. In case of any suspected corruption or violation, employees can whistle-blow to the Group through telephone, email and other online channels. Investigations are conducted and reported to the management in a timely manner. To protect the interests of the whistleblower, we will keep their identity confidential.

To enhance the knowledge and awareness of business ethics and integrity of the management and employees, relevant training courses are arranged. During the Reporting Period, we arranged a one-hour training on integrity.

During the Reporting Period, we were not aware of any material violations of laws and regulations involving corruption, extortion, fraud and money laundering.

COMMUNITY INVESTMENT

As a property service provider, the Group always cares about the community and actively gives back to the community through various community investment activities. We have formulated the Regulation on Management of Community Culture Activities to standardise the principles and provide guidance for the Group's community investment and other community cultural activities. Each community regularly organises festival celebrations, community beautification activities, community care activities, cultural activities, etc., to engage with community residents, strengthen the cohesion of the community, as well as provide care to the communities in need. During the Reporting Period, we focused on the areas of community culture, environmental protection and vulnerable groups, and invested 1,140 hours and mobilised 17,198 participants.

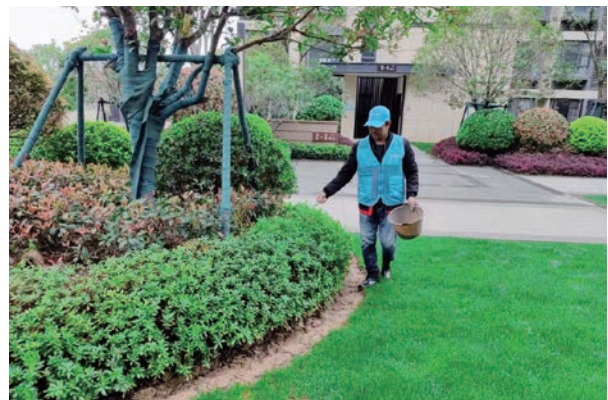
Community Culture

In order to enhance the cohesion of community residents, each of our property projects organises various community cultural activities on a regular basis to enable residents to get together and strengthen their connexion. During the Reporting Period, we held festive celebrations during festivals such as Children's Day, Dragon Boat Festival and Mid-Autumn Festival, such as art performances and rice dumpling competitions. We also organise other recreational and sports activities for residents to enjoy from time to time.



Environmental Protection

We are committed to protecting the environment. We actively hold various environmental protection activities in various communities, such as tree planting and community beautification activities, and invite residents to join us to jointly create a green living and protect the surrounding environment. We will also encourage residents to bring their children together and advocate the concept of protecting the environment to the next generation.



Caring for Disadvantaged

In order to create a atmosphere of harmonious community, we have cooperated with employees of each subsidiary to send warmth to people in need through different volunteer activities, such as free medical consultation, visits, voluntary cutting. During the pandemic, we also donated anti-pandemic supplies to the community. In addition, we will also provide employment opportunities for the disadvantaged groups to practice social responsibility.



REFERENCES TO THE METHOD OF CALCULATION AND EMISSION FACTORS OF ENVIRONMENTAL KEY PERFORMANCE INDICATORS

- Unless otherwise specified, the methods and emission factors used in calculation of environmental key performance indicators set out in the ESG report are determined with reference to “How to prepare an ESG Report? – Appendix II: Reporting Guidance on Environmental KPIs” published by the Hong Kong Stock Exchange.
- The total area of 90 projects under management during the year and the headquarters office of the Group in Beijing is used as the base unit for the consumption intensity of emissions and resources.
- Greenhouse gas emission coefficients refer to the “Pollution Coefficient and Use Instructions for Domestic Sources” issued by the South China Institute of Environmental Sciences of the Ministry of Environmental Protection, “Guidelines for Accounting Methods and Reporting of Greenhouse Gas Emissions by Enterprises in Other Industries” issued by the General Office of the National Development and Reform Commission and EMEP/EEA Air Pollutant Emission Inventory Guidebook published by European Environment Agency.
- The greenhouse gas emission coefficient per unit of electricity consumption for the treatment of freshwater refers to the annual report of Hong Kong Water Supplies Department 2017/18.
- The greenhouse gas emission coefficient per unit of electricity consumption for sewage treatment refers to the Hong Kong Drainage Services Department’s Sustainability Report 2019/20.
- The energy consumption conversion coefficient refers to the “Technical Note on Conversion of Fuel Data to MWh” issued by CDP.

INDEX OF ESG REPORTING GUIDE OF THE HONG KONG STOCK EXCHANGE

Subject Areas, Aspects, General Disclosures and KPIs		Section/Statement	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</p> <p>Note: Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.</p>	Air and Greenhouse Gas Emissions Waste	P. 69-70
KPI A1.1	The types of emissions and respective emissions data.		
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.		
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.		

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs		Section/Statement	Page
Aspect A2: Use of Resources			
General Disclosure	<p>Policies on the efficient use of resources, including energy, water and other raw materials.</p> <p>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</p>	Energy Water Consumption	P. 71-73
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).		
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).		
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.		
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.		
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	The Group does not use packaging materials for finished products.	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	Environmental Protection	P. 67-74
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		

Subject Areas, Aspects, General Disclosures and KPIs		Section/Statement	Page
Aspect A4: Climate Change			
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Changes	P. 73-74
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.		
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment	P. 74-76
KPI B 1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Employment	P. 74-76
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment	P. 74-76

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs		Section/Statement	Page
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety	P. 78-79
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.		
KPI B2.2	Lost days due to work injury.		
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.		
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	Development and Training	P. 79-80
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).		
KPI B3.2	The average training hours completed per employee by gender and employee category.		

Subject Areas, Aspects, General Disclosures and KPIs		Section/Statement	Page
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards	P. 80
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.		
KPI B4.2	Description of steps taken to eliminate such practices when discovered.		
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	P. 81-82
KPI B5.1	Number of suppliers by geographical region.		
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.		
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.		
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.		

Environmental, Social and Governance Report

Subject Areas, Aspects, General Disclosures and KPIs		Section/Statement	Page
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility	P. 83-85
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	No products of the Group have to be recalled for safety and health reasons.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Customer Communication	P. 84
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Due to the nature of business, intellectual property right is not a major concern of the Group.	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	The Group is not involved in product testing and recall.	N/A
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Privacy Protection	P. 85

Subject Areas, Aspects, General Disclosures and KPIs		Section/Statement	Page
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption	P. 85
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.		
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.		
KPI B7.3	Description of anti-corruption training provided to directors and staff.		
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment	P. 86-87
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).		
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.		

Report of the Directors

The board (the “**Board**”) of directors (the “**Directors**”) of Hevol Services Group Co. Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to present the annual report of the Company together with the audited consolidated financial statements for the year ended 31 December 2022.

GLOBAL OFFERING

The Company carried out the global offering on 12 July 2019, comprising of 100,000,000 shares at HK\$1.28 per share. For details of the relevant use of proceeds, please see the section headed “Proceeds from the Listing” in this annual report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of property management services and related value-added services in the PRC.

The activities and particulars of the Company’s subsidiaries are set out in note 30 to the consolidated financial statements in this annual report. An analysis of the Group’s revenue for the year by principal activities is set out in note 4 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

A review of the Group’s business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group’s performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group’s business, could be found in the sections headed “Chairman’s Statement”, “Management Discussion and Analysis” and “Corporate Governance Report” in this annual report. The review and discussion form part of this directors’ report.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and equity of the Group for the last five financial years is set out on pages 242 to 244 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROCEEDS FROM THE LISTING

The Company was successfully listed on the main board of the Stock Exchange on 12 July 2019 and issued 100,000,000 new shares. The net proceeds from the listing amounted to approximately HK\$75.8 million (equivalent to approximately RMB66.6 million) after deducting share issuance costs, listing expenses and underwriting commissions. As at 31 December 2022, all of the net proceeds from the listing have been utilised. Detailed information is set out under “Proceeds from the Listing” in the section headed “Management Discussion and Analysis” in this annual report.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group’s largest customer, Hevol Real Estate Group Limited (“**Hevol Real Estate**”) accounted for approximately 5.0% of the Group’s total revenue. The Group’s five largest customers accounted for approximately 8.4% of the Group’s total revenue. In the year under review, the Group’s largest supplier accounted for approximately 2.7% of the Group’s total purchase. The Group’s five largest suppliers accounted for approximately 6.5% of the Group’s total purchase.

Except for the above, none of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company’s issued share capital) has any beneficial interest in the Group’s five largest suppliers or five largest customers.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 25 May 2023 to Wednesday, 31 May 2023, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining Shareholders’ entitlement to attend and vote at the annual general meeting of the Company to be held on Wednesday, 31 May 2023 (the “**AGM**”). In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, not later than 4:30 pm on Wednesday, 24 May 2023.

RESULTS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 131 in this annual report.

Report of the Directors

DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2022 (for the year ended 31 December 2021: Nil).

DIVIDEND POLICY

Subject to the Companies Act, Cap 22 (law 3 of 1961, as consolidated and revised) of the Cayman Islands, the Company may declare dividends in any currency through a general meeting but no dividend shall be declared in excess of the amount recommended by the Board. The Articles provide that dividends may be declared and paid out of profit, realised or unrealised, or from any reserve of the Company lawfully available for distribution including share premium.

The declaration of dividends is subject to the discretion of the Directors, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- the Group's general business conditions;
- the Group's financial results;
- the Group's capital requirements;
- interests of the Shareholders; and
- any other factors which the Board may deem relevant.

Future dividend payments to Shareholders will also depend upon the availability of dividends received from the Company's subsidiaries in the PRC. PRC laws require that dividends be paid out of the net profit calculated according to PRC accounting principles, which differ in certain aspects from IFRSs. PRC laws also require enterprises located in the PRC to set aside part of their net profit as statutory reserves before they distribute the net proceeds. These statutory reserves are not available for distribution as cash dividends. Furthermore, distributions from the Company's subsidiaries may be restricted if they incur debts or losses or as a result of any restrictive covenants in bank credit facilities or other agreements that the Company or its subsidiaries may enter into in the future.

Any final dividend for a fiscal year will be subject to Shareholders' approval.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the consolidated financial statements in this annual report.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 134 to 135 in this annual report.

As at 31 December 2022, the distributable reserves of the Group amounted to approximately RMB339.9 million (2021: RMB345.9 million).

BORROWINGS

Details of the borrowings of the Group during the year ended 31 December 2022 are set out in note 21 to the consolidated financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2022 are set out in note 12 to the consolidated financial statements in this annual report.

RETIREMENT BENEFIT SCHEME

The Group is required to participate in the Mandatory Provident Fund in Hong Kong for any employee in Hong Kong and the employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of retirement benefit scheme of the Group are set out in note 7 to the consolidated financial statements in this annual report.

During the financial year ended 31 December 2022, no contribution was forfeited (by the Group on behalf of its employees who leave the scheme prior to vesting fully in such contributions) under the retirement benefit schemes in the PRC and in Hong Kong which may be used by the Group to reduce the existing level of contributions as described in paragraph 26(2) of Appendix 16 to the Listing Rules. Accordingly, no forfeited contribution was utilised during the year, and as at 31 December 2022, there was no forfeited contribution available to reduce the Group's existing level of contributions to the retirement benefit schemes (2021: Nil).

Report of the Directors

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2022, the Group donated HK\$ nil (2021: HK\$ nil) as charitable contributions.

DIRECTORS

The Board currently consists of the following eight Directors:

Executive Directors

Mr. Wang Wenhao (*Chief Executive Officer*)

Ms. Hu Hongfang (*Chief Financial Officer*)

Non-executive Directors

Mr. Liu Jiang ("**Mr. Liu**") (*Chairman*)

Mr. Zhou Wei

Independent Non-executive Directors

Mr. Qian Hongji

Mr. Fan Chi Chiu

Dr. Chen Lei

Dr. Li Yongrui

In accordance with article 83(3) of the Articles, all Directors shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM. Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders dated 28 April 2023.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 30 to 35 in the section headed "Biography of Directors and Senior Management" to this annual report. The Directors confirmed that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent from the date of their appointment to 31 December 2022 and remain so as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other. The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of the Directors has entered into any service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

Other than the Directors' service contract and letters of appointment, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended 31 December 2022.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, a permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has purchased Directors' and officers' liability insurance to provide protection against claims arising from the lawful discharge of duties by the Directors.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics. Details of the Directors' emoluments and emoluments of the highest paid individuals in the Group by band are set out in note 11 to the consolidated financial statements in this annual report.

For the year ended 31 December 2022, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended 31 December 2022.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2022, by the Group to or on behalf of any of the Directors.

HUMAN RESOURCES

The Group had approximately 5,146 employees as at 31 December 2022, as compared to 4,957 employees as at 31 December 2021. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the issued shares

Name of Director	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Liu ⁽¹⁾	Interest in a controlled corporation	286,439,934	51.15%

Note:

- The entire issued share capital of Brilliant Brother Group Limited ("Brilliant Brother") is held by Mr. Liu. Accordingly, Mr. Liu is deemed to be interested in all the Shares held by Brilliant Brother under the SFO.

Long position in associated corporation

Name of Director	Nature of interest	Associated corporation	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Liu ⁽¹⁾	Brilliant Brother	Beneficial owner	1	100.00%

Note:

- Brilliant Brother, a company whose entire issued share capital is held by Mr. Liu, is the ultimate holding company of the Company and thus an associated corporation of the Company under the SFO.

Report of the Directors

Save as disclosed above, as at 31 December 2022, none of the Directors and chief executive of the Company held or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which were taken or deemed to have taken under such provisions of SFO), or which were required, pursuant to Section 352 of SFO, to be entered into the register maintained by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to Model Code.

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, according to the register kept under Section 336 of the SFO, the following companies and persons (other than the Directors and chief executives of the Company) had long positions of 5% or more in the Shares and underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Interests and long positions in the Shares

Shareholder Name	Capacity	Number of shares held or interested	Approximate percentage of shareholding
Mr. Liu ⁽¹⁾	Interest of controlled corporation	286,439,934	51.15%
Brilliant Brother	Beneficial owner	286,439,934	51.15%
Mrs. Liu Hong (劉宏) ⁽²⁾	Interest of spouse	286,439,934	51.15%

Notes:

- (1) The entire issued share capital of Brilliant Brother is held by Mr. Liu. Therefore, Mr. Liu is deemed to be interested in the shares held by Brilliant Brother in the Company under the SFO.
- (2) By virtue of the SFO, Mrs. Liu Hong (劉宏) is deemed to be interested in the Shares held by her spouse, Mr. Liu, whose interests are disclosed in the above section headed "Directors' and Chief Executives' Interests and Short Position in Shares, Underlying Shares and Debentures of the Company".

Save as disclosed above, as of at 31 December 2022, the Company has not been notified of any other person (other than the Directors or chief executives of the Company) who was recorded in the register of the Company as having an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year under review was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Other than disclosed in the section headed "Material Related Party Transactions", in note 28 to the consolidated financial statements in this annual report, no other transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year under review, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CONTRACT WITH CONTROLLING SHAREHOLDERS

Other than disclosed in the section headed "Material Related Party Transactions", in note 28 to the consolidated financial statements in this annual report, no contract of significance was entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries during the year ended 31 December 2022 or subsisted at the end of the year and no contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or any of their subsidiaries was entered into during the year ended 31 December 2022 or subsisted at the end of the year.

CONNECTED TRANSACTIONS

During the year under review, the Company has strictly complied with the requirements specified under Chapter 14A of the Listing Rules in respect of its continuing connected transactions. Details of the relevant continuing connected transactions are as follows:

Continuing Connected Transactions Fully Exempt from the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements

Transitional Trademark Licencing Agreement

The trademark used by the Group in the PRC was owned by Hevol Investment. On 30 November 2018, Beijing Hongsheng, the Company's indirect wholly-owned subsidiary, entered into the agreement with Hevol Investment under which Hevol Investment agreed to transfer the trademark to Beijing Hongsheng at nil consideration (the "**Trademark Transfer Agreement**").

Pursuant to the Trademark Transfer Agreement, pending the completion of the registration of Beijing Hongsheng as the new registered owner of the trademark in the PRC, Hevol Investment granted the Group an exclusive licence for the use of the trademark on a royalty-free basis (the "**Transitional Trademark Licencing Arrangement**"). Such exclusive licence shall be valid until the completion of the registration of Beijing Hongsheng as the registered owner of the trademark in the PRC.

As the entire equity interest of Hevol Investment is ultimately owned by Mr. Liu, the Group's ultimate Controlling Shareholder, Hevol Investment is an associate of Mr. Liu and a connected person of the Company. The transaction under the Transitional Trademark Licencing Arrangement will constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules upon Listing.

As the right to use the licence trademarks was granted to the Group on a royalty-free basis under the Trademark Transfer Agreement, such transaction will be within the de minimis threshold provided under Rule 14A.76 of the Listing Rules and will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Lease Agreements in Relation to Jiaoda Jiayuan (交大嘉園)

Beijing Hevol a wholly-owned subsidiary of the Group and Hevol Real Estate entered into certain operation and management agreements in relation to (i) a clubhouse located at Jiaoda Jiayuan, one of the residential properties developed by Hevol Real Estate Group and managed by the Group, and (ii) the heating facilities in a boiler house, which serves as the heat generator of the collective heating system of Jiaoda Jiayuan, during the period from 15 November each year to 15 March of the following year. Under such agreements, Hevol Real Estate granted Beijing Hevol the right to occupy, operate and manage the clubhouse and the heating facilities and Beijing Hevol has the right to enjoy all the income generated from such properties, including the heating fees received from the residents, the subsidies received from the government for the heating facilities in accordance with the local regulations and policies, as well as the services fees received from the residents for enjoying the facilities in the clubhouse. In return, Beijing Hevol shall pay annual fees to Hevol Real Estate.

Upon the expiration of the operation and management agreements for the clubhouse and the heating facilities, on 29 January 2019, Beijing Hevol and Hevol Real Estate entered into two lease agreements, one for the clubhouse (the “**Clubhouse Lease Agreement**”) and one for the heating facilities (the “**Heating Facilities Lease Agreement**”), providing rights and obligations for both parties similar to that under the operation and management agreements described above.

Beijing Hevol and Hevol Real Estate entered into agreements to renew the Clubhouse Lease Agreement (the “**Renewed Clubhouse Lease Agreement**”) on 1 December 2021 for a term from 1 December 2021 to 30 November 2024 and Heating Facilities Lease Agreement (the “**Renewed Heating Facilities Lease Agreement**”) on 1 July 2021 for a term from 1 July 2021 to 30 June 2024, under which Hevol Real Estate leased the clubhouse and the heating facilities to Beijing Hevol for an annual rent of RMB294,000 and RMB432,000, respectively. The rights and obligations of both parties are similar to that under the operation and management agreements described above.

As Hevol Real Estate is an associate of Mr. Liu and a connected person of the Group, the transactions under the Clubhouse Lease Agreement and Heating Facilities Lease Agreement will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules upon Listing.

Report of the Directors

As the nature of the underlying transactions under the Renewed Clubhouse Lease Agreement and Renewed Heating Facilities Lease Agreement are similar and the contracting parties are the same, the Directors considered it appropriate to aggregate the amounts under these agreements when calculating the maximum annual rent payable under such agreements. The Directors estimated that the maximum aggregated annual fee payable by the Group under the Renewed Clubhouse Lease Agreement and Renewed Heating Facilities Lease Agreement for each of the three years ended 31 December 2024 will not exceed RMB726,000. In arriving at the above aggregated annual cap, the Directors have considered (i) the fair rent letters issued by an independent valuer in relation to the clubhouse and the heating facilities, respectively, and (ii) the terms and conditions of such agreements and the historical transaction amounts in prior years.

As each of the applicable percentage ratios under the Listing Rules in respect of the aggregated annual cap in relation to the Renewed Clubhouse Lease Agreement and Renewed Heating Facilities Lease Agreement is less than 5% and the total consideration is less than HK\$3,000,000, the transactions under such agreements will be exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Contractual Property Interest

The Group entitled to the property interests, including the right to enjoy, occupy, use and receive income as well as capital gain (or loss) deriving from the Investment Properties under the arrangements entered into between Beijing Hevol and Beijing Fufa Real Estate Development Co., Ltd. (北京福發房地產開發有限公司) ("**Fufa Property**"), Beijing Donghe Weiye Real Estate Development Limited (北京東和偉業房地產開發有限公司), ("**Donghe Weiye**") and Hevol Real Estate, respectively. Fufa Property and Donghe Weiye are wholly-owned subsidiaries of Hevol Real Estate and therefore are associates of Mr. Liu and connected persons of the Group. Accordingly, the transactions with Hevol Real Estate, Donghe Weiye and Fufa Property under such arrangement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since the Group has fully paid the consideration to own the beneficial interest of the Investment Properties and are entitled to such property interests without subsequent recurring fees, these transactions will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Purchase Agreement in Relation to Property Management Software

Beijing Community Radius Information Technology Limited (北京社區半徑信息技術有限公司) (“**Community Radius Limited**”) entered into a sale and purchase agreement with Beijing Hevol on 22 May 2017 and a supplemental agreement on 29 January 2019 (together, the “**Property Management Software Agreements**”). Under the Property Management Software Agreements, Community Radius Limited has granted a licence to Beijing Hevol for the use of the “Community Radius” (社區半徑) application (both Software-as-a-Service version and mobile application version) for a consideration of RMB59,400. Such consideration has already been paid by Beijing Hevol. The Property Management Software Agreements will be effective until 20 May 2022.

Community Radius Limited is owned by Mr. Liu as to 51%, the Group’s ultimate Controlling Shareholder, and therefore is an associate of Mr. Liu and a connected person of the Group. Accordingly, the transactions under the Property Management Software Agreements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the one-off consideration has been paid by Beijing Hevol for the right to enjoy the products, functions and services under the Property Management Software Agreements and the continuing enjoyment will not incur any subsequent recurring fees, such transactions will be within the de minimis threshold provided under Rule 14A.76 of the Listing Rules and will be exempt from the reporting, annual review, announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement and Independent Shareholders’ Approval Requirements

Master Services Agreement and the Supplemental Master Services Agreement

The Group entered into certain preliminary property management service agreements with subsidiaries of Hevol Real Estate Group for properties developed by them. Pursuant to such agreements, the Group provided property management services, mainly including (i) security services, (ii) repair and maintenance services, and (iii) cleaning and garden landscape maintenance services (the “**Hevol Property Management Services**”). The Group also provided certain value-added services to non-property owners to Hevol Real Estate Group, mainly including sales assistance services such as display unit management services, market planning services and visitor reception services (the “**Hevol Developer-related Services**”). In addition, the Group provided ancillary property management services, mainly including (i) consultancy and planning services, (ii) preliminary stage property management start-up services; (iii) property management services of properties held by Hevol Real Estate Group; (iv) inspection services; (v) repair services; (vi) cleaning services and (vii) formaldehyde removal services (the “**Ancillary Property Management Services**”).

Report of the Directors

On 27 June 2019, the Group entered into a master service agreement (the “**Master Service Agreement**”) with Hevol Real Estate in relation to the Group’s continuing provision of the Hevol Property Management Services and the Hevol Developer-related Services to Hevol Real Estate Group. On 29 April 2020, the Group and Hevol Real Estate entered into the supplemental master services agreement (the “**Supplemental Master Services Agreement**”) for a term from 29 April 2020 to 31 December 2021 to revise the Master Services Agreement, pursuant to which the Group agreed to provide the Ancillary Property Management Services to Hevol Real Estate Group in addition to the Hevol Property Management Services and the Hevol Developer-related Services. Relevant subsidiaries of both parties will enter into separate service agreements which will set out the specific terms and conditions according to the principles provided in the Master Service Agreement.

Pursuant to the Master Services Agreement, the maximum annual fees payable by the Hevol Real Estate Group in relation to the Hevol Property Management Services to be provided by the Group for the three years ended 31 December 2021 will not exceed RMB8.7 million, RMB13.3 million and RMB15.0 million, respectively; while the maximum annual fee in relation to the Hevol Developer-related Services for the same three years will not exceed RMB26.0 million, RMB26.5 million and RMB22.4 million, respectively. Thus, the total service fees payable to the Group under the Master Service Agreement will not exceed RMB34.7 million, RMB39.8 million and RMB37.4 million for each of the three years ended 31 December 2021, respectively. In addition, the maximum annual fee in relation to the Ancillary Property Management Services under the Supplemental Master Services Agreement for the two years ended 31 December 2021 will not exceed RMB53.6 million and RMB80.7 million.

In arriving at the above, the revised annual caps were estimated by the Directors with reference to (i) the basis of pricing policy for the Ancillary Property Management Services in each cities, (ii) the estimated revenue to be recognised in relation to the Ancillary Property Management Services to be provided by the Group pursuant to the Supplemental Master Services Agreement, (iii) the original estimated revenue to be recognised in relation to the Master Services Agreement to be provided by the Group pursuant to existing contracts and the expected time and volume of delivery for the Group’s existing property management projects; and (iv) the estimated GFA of the properties to be delivered by Hevol Real Estate Group. The remaining portion represents approximately 30% buffer for the Ancillary Property Management Services to be provided by the Group for any unforeseeable circumstances.

Each of Hevol Investment and Hevol Real Estate is an associate of Mr. Liu and a connected person of the Group. Accordingly, the transactions under the Master Service Agreement will constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Since the applicable ratios under the Listing Rules in respect of the annual caps in relation to Master Service Agreement are expected to be more than 5%, the transactions under the Hevol Property Management Services Agreement constitute continuing connected transactions of the Company which are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The New Master Services Agreement

Pursuant to the expiry of the Supplemental Master Services Agreement on 31 December 2021, the Group expects that it will continue to enter into transactions of a similar nature to the Master Services Agreement and the Supplemental Master Services Agreement.

On 31 December 2021, the Group entered into a New Master Services Agreement (the “**New Master Services Agreement**”) with Hevol Real Estate in relation to the Group’s continuing provision of the Hevol Property Management Services, the Hevol Developer-related Services and the Ancillary Property Management Services for the period from the date immediately after the fulfillment of all conditions set out in the New Master Services Agreement, including the approval by the independent shareholders of the Company to 31 December 2024. The relevant subsidiaries of both parties will enter into separate service agreements which will set out the specific terms and conditions according to the principles provided in the Master Service Agreement. On 9 March 2022, an extraordinary general meeting was convened by the Company for the consideration and the approval of, among other things, the New Master Services Agreement, the proposed annual caps and the transactions contemplated thereunder (the “**Resolutions**”) and the Resolutions were duly passed as ordinary resolutions by the independent shareholders of the Company.

The Group’s Directors estimate that the maximum annual fees payable by the Hevol Real Estate Group in relation to the Hevol Property Management Services to be provided by the Group under the New Master Services Agreement for the three years ending 31 December 2024 will not exceed RMB24.8 million, RMB17.5 million and RMB13.8 million, respectively; the maximum annual fee in relation to the Hevol Developer-related Services for the same three years will not exceed RMB35.6 million, RMB30.5 million and RMB25.7 million, respectively; and the maximum annual fee in relation to the Ancillary Property Management Services for the same three years will not exceed RMB70.5 million, RMB53.8 million and RMB53.7 million, respectively.

Report of the Directors

In arriving at the above proposed annual caps, the Directors had estimated with reference to (i) the basis of pricing policy for Hevol Property Management Service, the Hevol Developer-related Services and the Ancillary Property Management Services in each cities, (ii) the respective historical transaction amount in relation to the Existing Master Services Agreement and Supplemental Master Services Agreement for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, (iii) the estimated increase in transaction amount to be recognised in relation to the New Master Services Agreement pursuant to (a) the existing contracts and (b) the potential increase in property management services to be provided to Hevol Real Estate Group due to the delay in completion of properties and projects which were originally planned to be delivered in the year of 2021 by Hevol Real Estate Group to 2022, (iv) the estimated size of projects to be managed by the Group according to the updated development plan of property management projects, sales coordination projects and ancillary property management projects provided by Hevol Real Estate for the coming three years period ending 31 December 2024, (v) the local market rates for the provision of similar services in each city are used as the basis of pricing policy and (vi) a reasonable buffer of approximately 15% buffer to cater for (a) the unexpected business growth, (b) the inflation in the PRC and (c) a potential increase in the Ancillary Property Management Services as mentioned in (iii) above.

Each of Hevol Investment and Hevol Real Estate is an associate of Mr. Liu and a connected person of the Group. Accordingly, the transactions under the New Master Services Agreement will constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Since the applicable ratios under the Listing Rules in respect of the annual caps in relation to New Master Services Agreement are expected to be more than 5%, the transactions under the New Master Services Agreement constitute continuing connected transactions of the Company which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Kunshan Tongzhou Framework Agreement and Zhejiang Zhongzheng Framework Agreement

On 1 April 2021, the Board approved the Kunshan Tongzhou Framework Agreement between Shanghai Tongjia Property Service Co., Ltd.* (上海同嘉物業服務有限公司) (“**Shanghai Tongjia**”), a non-wholly owned subsidiary of the Company, and Kunshan Tongzhou Real Estate Co., Ltd.* (昆山同周置業有限公司) (“**Kunshan Tongzhou**”) with respect to the provision of services by Shanghai Tongjia to Kunshan Tongzhou for a term from 2 April 2021 to 31 December 2023 (the “**Kunshan Tongzhou Framework Agreement**”).

On 1 April 2021, the Board approved the Zhejiang Zhongzheng Framework Agreement between Shanghai Tongjia, and Zhejiang Zhongzheng Real Estate Co., Ltd. * (浙江中證置業有限公司) (“**Zhejiang Zhongzheng**”) with respect to the provision of services by Shanghai Tongjia to Zhejiang Zhongzheng for a term from 2 April 2021 to 31 December 2021 (the “**Zhejiang Zhongzheng Framework Agreement**”).

Pursuant to the Kunshan Tongzhou Framework Agreement and Zhejiang Zhongzheng Framework Agreement, Shanghai Tongjia agreed to provide to Kunshan Tongzhou and Zhejiang Zhongzheng (i) sales facilitation services, (ii) early involvement and consultancy services, (iii) preliminary stage property management start-up services and (iv) preliminary property management services. Shanghai Tongjia, Kunshan Tongzhou and Zhejiang Zhongzheng shall enter into separate written agreements for detailed service scope in respect of the services as and when necessary.

The Group’s Directors estimate that the maximum annual fees payable by Kunshan Tongzhou in relation to services to be provided by Shanghai Tongjia under the Kunshan Tongzhou Framework Agreement for the three years ending 31 December 2023 will not exceed RMB9.0 million, RMB8.1 million and RMB4.5 million, respectively and the maximum annual fees payable by Zhejiang Zhongzheng in relation to services to be provided by Shanghai Tongjia under the Zhejiang Zhongzheng Framework Agreement for the three years ending 31 December 2023 will not exceed RMB2.3 million, RMB3.3 million and RMB1.9 million, respectively.

The above proposed annual caps are estimated by the Directors with reference to (i) pricing guidance of local authorities where the property is located (if any); (ii) staff costs (including salary and staff expenses); (iii) current market prices of independent third parties that provide similar products and services under normal commercial terms and in the ordinary course of business; (iv) the price of connected parties and independent third parties in respect of non-connected transactions, and (v) in any event, on terms that are no less favourable than those entered into by Shanghai Tongjia for providing similar services and products to independent third parties.

Report of the Directors

Kunshan Tongzhou is owned as to 47.5%, 47.5% and 5% by Mr. Liu Zhe, Mr. Sun Yigong and Ms. Huang Min respectively. Zhejiang Zhongzheng is owned as to 43.225%, 43.225% and 4.55% by Mr. Liu Zhe, Mr. Sun Yigong and Ms. Huang Min respectively. As Shanghai Tongjia is owned as to 60% by the Group and 40% by Shanghai Tongjin, which is in turn ultimately owned as to 47.5%, 47.5% and 5% by Mr. Liu Zhe, Mr. Sun Yigong and Ms. Huang Min respectively. Each of Mr. Liu Zhe, Mr. Sun Yigong and Shanghai Tongjin is a connected person or an associate of the Group. Accordingly, the transactions under the Kunshan Tongzhou Framework Agreement and Zhejiang Zhongzheng Framework Agreement constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

Mr. Yang Framework Agreement

On 1 April 2021, the Board approved the Mr. Yang Framework Agreement between Shanghai Guizhou Xingji Property Service Co., Ltd.* (貴州星際物業服務有限公司) (“**Guizhou Xingji**”), a non-wholly owned subsidiary of the Company, Mr. Yang Wulin (“**Mr. Yang**”) with respect to the provision of Services by Guizhou Xingji to Mr. Yang’s associated companies for a term from 2 April 2021 to 31 December 2021 (the “**Mr. Yang Framework Agreement**”).

Pursuant to the Mr. Yang Framework Agreement, Guizhou Xingji agreed to provide to Mr. Yang’s associated companies (i) sales facilitation services, (ii) cleaning services, (iii) preliminary stage property management start-up services and (iv) preliminary property management services.

The Group’s Directors estimate that the maximum annual fees payable by Mr. Yang’s associated companies in relation to services to be provided by Guizhou Xingji under the Mr. Yang Framework Agreement for the three years ending 31 December 2023 will not exceed RMB15.6 million, RMB11.7 million and RMB10.2 million, respectively.

The above proposed annual caps are estimated by the Directors with reference to (i) pricing guidance of local authorities where the property is located (if any), (ii) staff costs (including salary and staff expenses), (iii) current market prices of independent third parties that provide similar products and services under normal commercial terms and in the ordinary course of business (iv) the price of connected parties and independent third parties in respect of non-connected transactions and (v) in any event, on terms that are no less favourable than those entered into by Guizhou Xingji for providing similar services and products to independent third parties.

Guizhou Xingji is owned as to 51% by the Group and 49% by Mr. Yang Wujun. As Mr. Yang Wujun is the brother of Mr. Yang, both Mr. Yang and his associated companies are connected persons or associates of the Group. Accordingly, the transactions under the Mr. Yang Framework Agreement constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

Wansheng Investment Framework Agreement and Huaxin Wansheng Framework Agreement

On 28 May 2021, the Board approved the Wansheng Framework Agreement between Sichuan Wansheng Property Service Co., Ltd.* (四川萬晟物業服務有限公司) (“**Sichuan Wansheng**”), a non-wholly owned subsidiary of the Company, and Sichuan Wansheng Investment Co., Ltd.* (四川萬晟投資有限公司) (“**Wansheng Investment**”) with respect to the provision of services by Sichuan Wansheng to Wansheng Investment for a term from 29 May 2021 to 31 December 2023 (the “**Wansheng Investment Framework Agreement**”).

On 28 May 2021, the Board approved the Huaxin Wansheng Framework Agreement between Sichuan Wansheng and Sichuan Huaxin Wansheng Real Estate Co., Ltd.* (四川華信萬晟房地產有限公司) (“**Huaxin Wansheng**”) with respect to the provision of services by Sichuan Wansheng to Huaxin Wansheng Investment for a term from 29 May 2021 to 31 December 2023 (the “**Huaxin Wansheng Framework Agreement**”).

Pursuant to the Wansheng Investment Framework Agreement and Huaxin Wansheng Framework Agreement, Sichuan Wansheng agreed to provide to Wansheng Investment and Huaxin Wansheng (i) preliminary property management services, (ii) sales facilitation services, (iii) early planning and consultancy services, (iv) property management office set-up services and (v) inspection services. Sichuan Wansheng, Wansheng Investment and Huaxin Wansheng shall enter into separate written agreements which will set out the detailed terms for the relevant transactions contemplated under their respective service framework agreements as and when necessary.

The Group’s Directors estimate that the maximum annual fees payable by Wansheng Investment in relation to services to be provided by Sichuan Wansheng under the Wansheng Investment Framework Agreement for the three years ending 31 December 2023 will not exceed RMB9.4 million, RMB9.0 million and RMB8.4 million, respectively and the maximum annual fees payable by Huaxin Wansheng in relation to services to be provided by Sichuan Wansheng under the Huaxin Wansheng Framework Agreement for the three years ending 31 December 2023 will not exceed RMB11.0 million, RMB11.3 million and RMB11.3 million, respectively.

The above proposed annual caps are estimated by the Directors with reference to (i) the number, nature, category and location of the properties, (ii) estimated gross floor area of the properties, (iii) estimated number of parking spaces, (iv) the rates generally offered by the Group to Independent Third Parties in respect of comparable services, (v) anticipated staff costs of the Group and (vi) a reasonable buffer to cater for any unexpected property management services.

Report of the Directors

As Sichuan Wansheng is owned as to 60% by the Group and 40% by Mr. Deng Lihua (“**Mr. Deng**”), Mr. Deng is a connected person of the Group. Wansheng Investment is owned by Mr. Deng as to 36.55% and Huaxin Wansheng Investment is owned by Mr. Deng as to 90%. Accordingly, the transactions under the Wansheng Investment Framework Agreement and Huaxin Wansheng Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the applicable ratios under the Listing Rules in respect of the annual caps in relation to Kunshan Tongzhou Framework Agreement, Zhejiang Zhongzheng Framework Agreement, Mr. Yang Framework Agreement, Wansheng Investment Framework Agreement and Huaxin Wansheng Framework Agreement are expected to be more than 0.1% but less than 5% for the Group, the transactions thereunder constitute continuing connected transactions of the Company which are subject to the reporting, annual review and announcement but exempted from the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Further Details of the Kunshan Tongzhou Framework Agreement, Zhejiang Zhongzheng Framework Agreement, Mr. Yang Framework Agreement are set out in the announcement of the Company dated 1 April 2021 while further details of the Wansheng Investment Framework Agreement and Huaxin Wansheng Framework Agreement are set out in the announcement of the Company dated 28 May 2021.

The Company adjusts the scope and amount of continuing connected transactions and the annual caps exempted from disclosure (where necessary) in accordance with its internal control procedures. During the year ended 31 December 2021, the Company has followed the pricing policies and guidelines for each of the continuing connected transactions disclosed in this annual report when determining the price and terms of such transactions conducted. The Directors are of the view that the Company’s internal control procedures are adequate and effective to ensure that transactions are so conducted.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the continuing connected transactions carried out during the year and confirm the transactions thereunder had been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules:

- (i) nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board.
- (ii) nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the pricing policies of the Group and the relevant agreements governing such transactions.
- (iii) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended 31 December 2022 has been provided by the Company to the Hong Kong Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2022 are set out in note 28 to the consolidated financial statements in this annual report.

Save as disclosed above, during the year under review, none of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

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

For the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Report of the Directors

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing Shares, or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company during the year or subsisted at the end of the year.

EMOLUMENT POLICY

The remuneration policy (which includes the payment of the emoluments to the employees) of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' performance, qualifications and experiences. Details of the remuneration of the Directors are set out in note 11 to the consolidated financial statements in this annual report, having regard to the Company's operating results, individual performance of the Directors and senior management and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

As a property service provider in China, the Group is required to comply with various national and local laws and regulations on environmental protection, including laws and regulations of air pollution, sound pollution, waste and sewage. The Group has complied with the laws and regulations which are significant to the operation of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

KEY RELATIONSHIPS WITH THE GROUP'S STAKEHOLDERS

Workplace Quality

The Group believes that the Directors, senior management and employees of the Group are instrumental to the success of the Group and that their industry knowledge and understanding of the market will enable the Group to maintain the competitiveness in the market. The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different trainings, staff's professional knowledge in corporate operations, occupational and management skills is enhanced. The Group also organised staff-friendly activities for employees, such as annual dinner, to promote staff relationship.

The Group provides a safe, effective and congenial working environment. Adequate arrangements, trainings and guidelines are implemented to ensure the working environment is healthy and safe. The Group provided health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues. The Group values the health and well-being of its staff. In order to provide employees with health coverage, its employees are entitled to medical insurance benefits.

MATERIAL LEGAL PROCEEDINGS

There are certain on-going litigation claims relating to loan disputes in which Guiyang Xinglong Property Management Co., Ltd. (貴陽興隆物業管理有限公司) ("**Guiyang Xinglong**") and Guizhou Huaxin Financing Guarantee Co., Ltd (貴州華信融資擔保有限公司) ("**Guizhou Huaxin**") are involved, and the maximum exposure of Guiyang Xinglong in the capacity of the guarantor amounts to approximately RMB18,439,000. Please refer to note 19 to the consolidated financial statements in this annual report. Save as disclosed above, the Group was not involved in any material legal proceeding during the year ended 31 December 2022.

SIGNIFICANT INVESTMENTS HELD

Saved as disclosed in this annual report, as at 31 December 2022, the Group did not hold any significant investment.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group plans to expand the breadth and contents of the Group's service offerings and property portfolio by mergers and acquisition by acquiring a majority shareholding of property management companies. During the year, the Group has completed several material equity acquisitions (details are set out in note 27 to the consolidated financial statements in this annual report). These acquisitions will enable the Group to further expand the scale and the scope of its business, deepen the synergy with the existing projects and achieve the complementary effect among regions and industries.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2022, saved as disclosed in this annual report, the Group did not have any other immediate plans for material investments and capital assets.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the CG Code as its own code to govern its corporate governance practices. In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the reporting period.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 36 to 56 of this annual report.

ENVIRONMENTAL AND SOCIAL MATTERS

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the year ended 31 December 2022 are set out in the Environmental, Social and Governance Report on pages 57 to 95 of this annual report.

EVENTS AFTER THE REPORTING DATE

Details of significant events occurring after the reporting date are set out in note 34 to the consolidated financial statements in this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2022, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year under review. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year under review.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.



Report of the Directors

AUDITOR

The consolidated financial statements for the year ended 31 December 2022 were audited by BDO Limited. A resolution to re-appoint BDO Limited as auditor of the Company will be proposed at the forthcoming AGM.

CHANGE OF AUDITOR

With effect from 6 January 2022, Grant Thornton Hong Kong Limited (“**Grant Thornton**”) resigned as the auditor of the Company. BDO Limited was appointed as the new auditor of the Company with effect from 6 January 2022 to fill the casual vacancy following the resignation of Grant Thornton. On 24 June 2022, BDO Limited was re-appointed as auditor of the Company at the annual general meeting of the Company.

On behalf of the Board

WANG WENHAO

Chief Executive Officer and Executive Director

Hong Kong, 31 March 2023

Independent Auditor's Report



To the shareholders of Hevol Services Group Co. Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hevol Services Group Co. Limited (the “**Company**”) and its subsidiary (together the “**Group**”) set out on pages 131 to 241, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Purchase price allocation for business combinations

Refer to significant accounting policies in note 2.3, critical accounting estimates in note 3 and the disclosures of acquisition of subsidiaries in note 27 to the consolidated financial statements.

During the year ended 31 December 2022, the Group had two business combinations. Management has engaged an independent qualified valuer to assist them in identifying the intangible assets and to perform the valuations of the identified assets and liabilities of the acquired companies at their respective acquisition dates and, based on which, management performed a purchase price allocation for each acquisition, which resulted in the identification and recognition of intangible assets of RMB54,763,000, being the identified customer relationships, and the recognition of goodwill of RMB188,872,000, being the excess of considerations transferred and the amount of non-controlling interests in the acquirees over the fair value of identifiable net assets acquired.

Significant judgements and estimates were involved in the fair value assessment of the identified customer relationships and the recognition of goodwill arising from the business combinations. These significant judgements and estimates include the adoption of appropriate valuation methodologies and use of key assumptions in the valuations, mainly annual revenue growth rates, gross profit margins, discount rates and expected useful lives of customer relationships.

We focused on this area because of the magnitude of the identified customer relationships and goodwill recognised arising from the business combinations, and the significant management judgements and estimates involved in the fair value assessment of the identified customer relationships and the recognition of goodwill arising from the business combinations.

KEY AUDIT MATTERS (Continued)

How the matter was addressed in our audit

Our procedures to assess the purchase price allocation for business combinations included the following:

- evaluating the competency, capability and objectivity of the independent professional valuer engaged by management;
- engaging our valuation expert to assist us in evaluating the appropriateness of the valuation methodologies adopted and the reasonableness of discount rates and useful lives of customer relationships used in determining the purchase price allocation for these acquisitions; and
- assessing the sensitivity analysis performed by management on the impact of changes in the key assumptions used on the fair values of identified customer relationships and the amount of goodwill recognised.

Expected credit loss ("ECL") allowance on trade and other receivables

Refer to significant accounting policies in note 2.10, critical accounting estimates and judgments in note 3, the disclosures of trade and other receivables in note 17 and credit risk policy in note 32.2 to the consolidated financial statements.

As at 31 December 2022, the Group had gross balance of trade and other receivables amounting to RMB704,452,000 fall within the scope of ECL model. The Group determines the ECL allowance on trade and other receivables based on the Group's past history, existing market conditions and forward-looking information.

We identified the ECL allowance of trade and other receivables as a key audit matter given the significant management judgements and estimates involved in assessing the credit risk and determining the amount of allowances under the ECL model. These judgments and assumptions including but not limited to the debtors' payment history and creditworthiness, historical default rates, and forward-looking macroeconomic factors.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

How the matter was addressed in our audit

Our procedures in relation to the ECL allowance on trade and other receivables included:

- evaluating the competency, capability and objectivity of the independent professional valuer engaged by management for the Group's measurement of ECL allowance on trade and other receivables;
- testing the ageing analysis of trade and other receivables prepared by management and reviewing the payment history of the debtors on a sample basis;
- assessing the management's judgement on significant increase in credit risk for other receivables measured at amortised cost; and
- engaging our valuation expert to assist us in evaluating the appropriateness of management's credit loss provisioning methodology and key parameters used in estimating the ECL allowance.

Impairment of goodwill

Refer to significant accounting policies in notes 2.8 and 2.21, critical accounting estimates and judgments in note 3 and the disclosures of goodwill in note 15 to the consolidated financial statements.

As at 31 December 2022, the Group had goodwill arising from business combinations amounting to RMB481,533,000.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that it is impaired. Management has tested such goodwill for impairment as at 31 December 2022 with reference to the valuations performed by the independent professional valuer, and concluded that no impairment loss was recognised. This conclusion is based on value in use calculations based on five-year financial budgets approved by management with key assumptions of revenue growth rates, terminal growth rates, discount rates and gross profit margins that required significant management judgment and estimation.

We identified this area as a key audit matter due to the significance of the carrying amount of goodwill and the significant judgments and estimates involved in the goodwill impairment assessment.

KEY AUDIT MATTERS (Continued)

How the matter was addressed in our audit

Our audit team included a valuation expert. Our procedures in relation to management's impairment assessment of goodwill included:

- evaluating the competency, capability and objectivity of the independent professional valuer engaged by management;
- reconciling input data used in the Group's future cash flow projection of each cash generating unit to supporting evidence, such as service contracts and approved budgets and considering the reasonableness of these budgets;
- engaging our valuation expert to assist us in assessing the appropriateness of valuation methodology adopted and key assumptions used to estimate the value in use calculations prepared by the independent professional valuer engaged by management; and
- challenging the reasonableness of key assumptions based on our knowledge of the Group's business and industry.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

DIRECTOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Wendy W.Y. Fong

Practising Certificate No.: P06821

Hong Kong, 31 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	4	1,041,221	766,791
Cost of sales		(745,913)	(502,598)
Gross profit		295,308	264,193
Other income and gains	5	16,220	15,496
Expected credit losses ("ECL") allowance on trade and other receivables		(46,976)	(5,810)
Administrative expenses		(145,810)	(134,464)
Finance costs	6(a)	(465)	(465)
Profit before income tax	6(b)	118,277	138,950
Income tax expense	8	(14,713)	(30,314)
Profit for the year		103,564	108,636
Other comprehensive income for the year, net of nil tax			
<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		22,155	(981)
Total comprehensive income for the year		125,719	107,655
Profit for the year attributable to:			
Equity shareholders of the Company		68,718	86,194
Non-controlling interests		34,846	22,442
		103,564	108,636
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		90,873	85,213
Non-controlling interests		34,846	22,442
		125,719	107,655
Earnings per share attributable to equity shareholders of the Company (expressed in RMB cents)			
Basic and diluted	10	12.27	15.60

The notes on pages 138 to 241 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	12	25,754	20,254
Intangible assets	13	127,496	85,215
Investment properties	14	40,483	28,768
Goodwill	15	481,533	292,661
Deposit paid for acquisition of a subsidiary	17	–	50,735
Deferred tax assets	22	29,460	10,752
		704,726	488,385
Current assets			
Inventories	16	1,619	585
Trade and other receivables	17	643,677	284,204
Restricted bank deposits	19	7,319	9,845
Bank balances and cash		275,922	391,228
		928,537	685,862
Current liabilities			
Bank borrowings	21	5,000	–
Contract liabilities	4(a)	295,689	182,714
Trade and other payables	19	554,088	332,674
Lease liabilities	20	3,767	1,897
Income tax liabilities		9,138	43,436
		867,682	560,721
Net current assets		60,855	125,141
Total assets less current liabilities		765,581	613,526

Consolidated Statement of Financial Position

As at 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Non-current liabilities			
Bank borrowings	21	4,000	4,000
Other payables	19	20,000	–
Lease liabilities	20	3,324	647
Deferred tax liabilities	22	26,789	20,853
		54,113	25,500
Net assets			
		711,468	588,026
EQUITY			
Share capital	23	38	38
Reserves	24	614,621	523,748
Equity attributable to equity shareholders of the Company			
		614,659	523,786
Non-controlling interests		96,809	64,240
Total equity			
		711,468	588,026

Wang Wenhao
Director

Hu Hongfang
Director

The notes on pages 138 to 241 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to equity shareholders of the Company						Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (note 23)	Share premium* RMB'000 (note 24(a))	Capital reserve* RMB'000 (note 24(c))	Statutory reserve* RMB'000 (note 24(b))	Exchange reserve* RMB'000 (note 24(d))	Retained profits* RMB'000			
Balance at 1 January 2021	34	187,853	34,226	14,395	(5,573)	76,235	307,170	20,029	327,199
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	86,194	86,194	22,442	108,636
Other comprehensive income for the year									
- Exchange differences on translation of the Company's financial statements into its presentation currency	-	-	-	-	(981)	-	(981)	-	(981)
	-	-	-	-	(981)	86,194	85,213	22,442	107,655
Transactions with owners									
- Issue of shares upon placing of shares (note 23(i))	4	133,400	-	-	-	-	133,404	-	133,404
- Issuance expenses of placing of new shares (note 23(i))	-	(2,001)	-	-	-	-	(2,001)	-	(2,001)
- Acquisition of subsidiaries (note 27)	-	-	-	-	-	-	-	32,890	32,890
- Appropriation to statutory reserve	-	-	-	5,926	-	(5,926)	-	-	-
- Dividends distributed to non-controlling interests	-	-	-	-	-	-	-	(11,121)	(11,121)
Total transactions with owners	4	131,399	-	5,926	-	(5,926)	131,403	21,769	153,172
Balance at 31 December 2021	38	319,252	34,226	20,321	(6,554)	156,503	523,786	64,240	588,026

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to equity shareholders of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium*	Capital reserve*	Statutory reserve*	Exchange reserve*	Retained profits*			
	RMB'000 (note 23)	RMB'000 (note 24(a))	RMB'000 (note 24(c))	RMB'000 (note 24(b))	RMB'000 (note 24(d))	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2022	38	319,252	34,226	20,321	(6,554)	156,503	523,786	64,240	588,026
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	68,718	68,718	34,846	103,564
Other comprehensive income for the year									
- Exchange differences on translation of the Company's financial statements into its presentation currency	-	-	-	-	22,155	-	22,155	-	22,155
	-	-	-	-	22,155	68,718	90,873	34,846	125,719
Transactions with owners									
- Acquisition of subsidiaries (note 27)	-	-	-	-	-	-	-	16,707	16,707
- Appropriation to statutory reserve	-	-	-	3,668	-	(3,668)	-	-	-
- Dividends distributed to non-controlling interests	-	-	-	-	-	-	-	(18,984)	(18,984)
Total transactions with owners	-	-	-	3,668	-	(3,668)	-	(2,277)	(2,277)
Balance at 31 December 2022	38	319,252	34,226	23,989	15,601	221,553	614,659	96,809	711,468

* The total of these amounts as at the reporting date represents "Reserves" in the consolidated statement of financial position.

The notes on pages 138 to 241 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Profit before income tax		118,277	138,950
Adjustments for:			
Amortisation of intangible assets	6(b)	13,569	8,325
Depreciation of property, plant and equipment	6(b)	8,068	5,687
Depreciation of investment properties	6(b)	1,110	1,049
Interest expenses	6(a)	465	465
Bank interest income	5	(1,203)	(1,374)
ECL allowance on trade and other receivables	17	46,976	5,810
Fair value gain on financial assets at fair value through profit or loss	5	(87)	(1,724)
(Gain)/loss on disposal of property, plant and equipment	5,6(b)	(133)	3
Operating profit before working capital changes		187,042	157,191
Increase in inventories		(222)	(156)
(Increase)/decrease in deposits, trade and other receivables		(234,111)	82,567
Increase in contract liabilities		46,809	65,078
Increase/(decrease) in trade and other payables		42,215	(83,270)
Cash generated from operations		41,733	221,410
Interest received		1,203	1,374
Income tax paid		(66,223)	(15,588)
Net cash (used in)/generated from operating activities		(23,287)	207,196

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,706)	(5,521)
Proceeds from disposal of property, plant and equipment		466	681
Proceeds from disposal of intangible assets		194	–
Payments to acquire financial assets at fair value through profit or loss		(11,200)	(11,158)
Proceeds from disposal of financial assets at fair value through profit or loss		11,287	37,328
Purchase of intangible assets		(1,196)	(1,616)
Acquisition of subsidiaries, net of cash acquired	27(a)(v), (b)(v)	(73,515)	(184,518)
Repayment of amounts due from related parties		–	524
Payment of outstanding consideration in respect of acquisitions in previous year		(14,645)	(6,000)
Deposits paid for acquisition of subsidiaries		–	(52,250)
Decrease in restricted bank deposits		2,526	–
Net cash used in investing activities		(91,789)	(222,530)
Cash flows from financing activities			
Repayment of amounts due to related parties	31	(634)	(2,283)
Advances to related parties	31	–	634
Payment of lease liabilities	31	(2,767)	(2,597)
Dividend paid to non-controlling interests		(18,984)	(11,121)
Proceeds from issuance of shares upon placement of shares	23(i)	–	133,404
Payment of share issuance expenses	23(i)	–	(2,001)
Net cash (used in)/generated from financing activities		(22,385)	116,036
Net (decrease)/increase in cash and cash equivalents		(137,461)	100,702
Cash and cash equivalents at the beginning of the year		391,228	291,507
Effect of foreign exchange rate changes		22,155	(981)
Cash and cash equivalents at the end of the year, represented by bank balances and cash		275,922	391,228

The notes on pages 138 to 241 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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, Uglund 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 Company is Mr. Liu Jiang (“**Mr. Liu**” or the “**Controlling Shareholder**”).

The functional currency of the Company is Hong Kong Dollars (“**HK\$**”), while the consolidated financial statements are presented in thousands of Renminbi (“**RMB’000**”), unless otherwise stated. The consolidated financial statements are presented in 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.

The consolidated financial statements for the year ended 31 December 2022 were approved for issue by the board of directors on 31 March 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

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

It should be noted that accounting estimates and assumptions are used in the preparation of these consolidated financial statements. Although these estimates are based on the management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 New or amended IFRSs adopted by the Group and changes in accounting policies

In the current year, 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 consolidated financial statements for the annual period beginning on 1 January 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS41	Annual Improvements to IFRSs 2018-2020

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Issued but not effective IFRSs

The following amended IFRSs, potentially relevant to the Group's financial statements, have been issued but are not yet effective and have not been early adopted 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 ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current (the "2020 Amendments") ^{3,4}
Amendments to IAS 1	Non-current Liabilities with Covenants (the "2022 Amendments") ³
Amendments to IAS 1 and IFRS Practice Statements 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ³

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

² The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2024

⁴ 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 has concluded that the adoption of these amendments is unlikely to have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of subsidiaries in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Business combinations (Continued)

Goodwill is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net fair value of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

2.4 Foreign currency translation

Items included in the consolidated financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is HK\$. The consolidated financial statements are presented in RMB as the functional currency of the Group's major operating subsidiaries is RMB.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates and are not retranslated (i.e. only translated using the exchange rates at the transaction date).

In the consolidated financial statements, assets and liabilities have been translated into RMB at the closing rates at each reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment (other than cost of right-of-use assets as described in note 2.14) are stated at cost less accumulated depreciation and accumulated impairment losses (note 2.21). The cost comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	5%
Furniture and fixtures and office equipment	20%
Motor vehicles	20%-33.3%

Accounting policy for depreciation of right-of-use assets is set out in note 2.14.

The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

2.6 Investment properties

Investment properties are land and/or buildings which are owned to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Investment properties (Continued)

On initial recognition, investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment properties. Subsequent to initial recognition, investment properties measured at cost less accumulated depreciation and accumulated impairment losses (note 2.21), if any. Depreciation is charged so as to write off the cost of investment properties net of expected residual value over the term of right of use of 20-50 years using a straight-line method. The useful life, residual value and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.

2.7 Intangible assets

Acquired intangible assets are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see note 2.21).

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	5 years
Customer relationships	5 to 10 years

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets are tested for impairment as described below in note 2.21.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is initially measured at cost, being the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2.21).

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

2.9 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

Financial assets

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15 "Revenue from Contracts with Customers ("IFRS 15"), all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets are classified into the following categories:

- amortised cost;
- FVTPL; or
- fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within "Finance costs" or "Other income", except for expected credit losses ("ECL") of financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's bank balances and cash, other deposits and trade and other receivables fall into this category of financial assets.

Financial assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within "Finance costs" or "Other income" in the consolidated statement of profit or loss and other comprehensive income.

Accounting policies of lease liabilities are set out in note 2.14.

Trade and other payables

These are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets

IFRS 9 “Financial Instruments” (“**IFRS 9**”)’s requires an entity to use more forward-looking information to recognise ECL – the “ECL model”. The Group’s trade and other receivables and bank balances and cash fall within the scope of the ECL model.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“**Stage 1**”) and
- financial assets that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“**Stage 2**”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the reporting date.

“12-month ECL” are recognised for the Stage 1 category while “lifetime ECL” are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the past due status.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Other financial assets measured at amortised cost (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in regulatory, business, financial, economic conditions, or technological environment that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and
- an actual or expected significant deterioration in the operating results of the debtor.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at each reporting date. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 32.2.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward-looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an assets that was previously written off are recognised in profit or loss of the period in which the reversal occurs.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (“**FIFO**”) method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand.

2.13 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.18). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.9).

2.14 Leases

(a) *Definition of a lease and the Group as a lessee*

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the lessee;
- the lessee has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Leases (Continued)

(a) Definition of a lease and the Group as a lessee (Continued)

- the lessee has the right to direct the use of the identified asset throughout the period of use. The Group assess whether the lessee has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Leases (Continued)

(a) Definition of a lease and the Group as a lessee (Continued)

Measurement and recognition of leases as a lessee (Continued)

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

On the consolidated statement of financial position, right-of-use assets have been included in "Property, plant and equipment", the same line as it presents the underlying assets of the same nature that it owns.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Leases (Continued)

(b) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

2.15 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as financial guarantee liabilities within other payables. The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instruments and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assessing the obligations. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Subsequently, financial guarantees are measured at the higher of the amount determined in accordance with ECL under IFRS 9 as set out in note 2.10 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised over the guarantee period.

2.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deduction from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition

The Group provides property management services, community value-added services and value-added services to non-property owners.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Property management services

For property management services, the Group bills a fixed amount for services provided on a monthly basis and recognises as revenue in the amount to which the Group has a right to invoice and that corresponds directly with the value of performance completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition (Continued)

Property management services (Continued)

For property management services income from properties managed under lump-sum basis, where the Group acts as a principal and is primary responsible for providing the property management services to the property owners, the Group recognises the fee received or receivable from property owners as its revenue and all related property management costs as its cost of services. For property management services income from properties managed under commission basis, the Group recognises the commission, which is calculated by certain percentage of the total property management fee received or receivable from the property units, or total property management cost incurred or accrual by the property units, as its revenue for arranging and monitoring the services as provided by other suppliers to the property owners.

Community value-added services

For community value-added services, revenue is recognised when the related community value-added services are rendered. Community value-added services are normally billable immediately upon the services are rendered.

Value-added services to non-property owners

Value-added services to non-property owners include mainly i) on-site sales assistance services, which primarily included cleaning and security services to property developers, which are billed and settled based on actual level of services provided at pre-determined price and revenue is recognised when such services are provided and ii) property delivery related and other consulting services with property developers which are billed on a monthly basis and revenue is recognised when the services are provided.

If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Interest income

Interest income is recognised on an accrual basis using the effective interest method.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under "Other income" in the consolidated statement of profit or loss and other comprehensive income.

2.21 Impairment of non-financial assets

Property, plant and equipment (including right-of-use assets), intangible assets, investment properties, goodwill arising on acquisitions of subsidiaries and investment in subsidiaries in the statement of financial position of the Company are subject to impairment testing. Goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Impairment of non-financial assets (Continued)

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment losses are charged pro-rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed and recognised as income immediately if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits

Retirement benefit

Retirement benefits to employees are provided through defined contribution plans.

The group entities established in the PRC make monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

Contributions are recognised as an expense in profit or loss as employees rendered services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulative compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Termination benefit

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Accounting for income tax (Continued)

Current tax assets and current tax liabilities are presented in net if, and only if:

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if:

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period which the dividends are approved by the Company's shareholders or board of directors, where appropriate.

2.26 Related parties

For the purpose of these consolidated financial statements, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Company.
- (b) the party is an entity and if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Related parties (Continued)

- (b) (Continued)
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Company.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainties

The Group makes judgement in the process of applying the Group's accounting policies, and also make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimation uncertainties (Continued)

Estimation of fair value of customers relationships and recognition of goodwill arising from business combinations

Significant judgments and estimates were involved in the fair value assessment of customers relationships and recognition of goodwill arising from business combinations. These significant judgement and estimates include the adoption of appropriate valuation methodologies and the use of key assumptions in the valuation (mainly including the average annual and long term growth rates of revenue, profit margin, discount rates, retention rates and expected useful lives of customer relationships). Changes in assumptions relating to these factors would result in material adjustments to the carrying amounts of customers relationship and goodwill. See notes 13 and 15 respectively for more details.

Estimation of ECL allowance on trade and other receivables

The Group makes ECL allowances on trade and other receivables based on assumptions about risk of default and expected loss rates. The Group used judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at each reporting date.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and provision for impairment in the periods in which such estimate has been changed.

As at 31 December 2022, the gross carrying amount of trade and other receivables within the scope of the ECL model amounted to RMB704,452,000 (2021: RMB350,569,000). Details of the ECL allowance on trade and other receivables are set out in note 32.2.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Estimation uncertainties (Continued)

Goodwill impairment assessment

For the purposes of annual goodwill impairment assessment, management considered each of the acquired property management companies a separate CGU and goodwill has been allocated to each of the acquired property management companies. Management assessed the impairment of goodwill by determining the recoverable amounts of the CGU to which goodwill has been allocated based on value in use calculation. Significant judgments and estimates were involved in the goodwill impairment assessment. These significant judgments and estimates include the adoption of appropriate valuation method and the use of key assumptions in the valuation, which primarily include revenue growth rates, terminal growth rates, gross profit margins and discount rates. These assumptions related to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. See note 15 for more details.

As at 31 December 2022, the carrying amount of goodwill was RMB481,533,000 (2021: RMB292,661,000). No impairment loss was recognised during the years ended 31 December 2022 and 2021.

Financial guarantees valuation

The valuation of the financial guarantees require the use of the management judgment in selecting an appropriate valuation technique for the financial guarantee contracts, and assumptions included the probability of default by the specified counterparty and an analysis of the counterparty's current and future financial position. Further details of the financial guarantee contracts are set out in note 19.

Notes 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 value-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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from external customers and recognised over time		
Property management services	779,422	528,510
Community value-added services	172,569	136,220
Value-added services to non-property owners	85,392	100,193
	1,037,383	764,923
Leasing income (not within the scope of IFRS 15)		
Community value-added services	3,838	1,868
	1,041,221	766,791

Geographical information

The major operating entities of the Group are domiciled in the PRC. As at 31 December 2022 and 2021, substantially all of the non-current assets (other than deferred tax assets) of the Group were located in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

For the year ended 31 December 2022, revenue from companies controlled by the Controlling Shareholder contributed 5.0% (2021: 8.3%) 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 year ended 31 December 2022 and 2021.

a) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	2022 RMB'000	2021 RMB'000
Contract liabilities	295,689	182,714

Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying services are yet to be provided. Increase in contract liabilities as a result from the growth of the Group's business and more advance payments were made by the property owners.

b) Revenue recognised in relation to contract liabilities

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

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the year		
Property management services	157,929	74,202
Community value-added services	10,926	4,006
Value-added services to non-property owners	145	–
	169,000	78,208

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers (Continued)

c) *Unsatisfied performance obligations*

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

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

5. OTHER INCOME AND GAINS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Government subsidy income (<i>note</i>)	7,351	5,182
Recovery of bad debts	5,502	5,128
Bank interest income	1,203	1,374
Sundry income	1,944	1,486
Fair value gain on financial assets at FVTPL	87	1,724
Gain on disposal of property, plant and equipment	133	–
Net exchange gain	–	602
	16,220	15,496

Note:

During the years ended 31 December 2022 and 2021, government subsidy income mainly relate to cash subsidies granted by the PRC government in respect of value-added tax relief and operating activities which are either unconditional or with conditions that having been satisfied.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

6. PROFIT BEFORE INCOME TAX

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

	2022 RMB'000	2021 RMB'000
(a) Finance costs		
Interest expenses on lease liabilities	245	186
Finance costs on interest-bearing bank borrowings	220	279
	465	465
(b) Other items		
Auditor's remuneration		
– audit fee	2,400	2,400
– other services	–	1,602
Amortisation of intangible assets (<i>note 13</i>)	13,569	8,325
Depreciation of property, plant and equipment (<i>note 12</i>)		
– Owned assets	4,654	3,777
– Right-of-use assets	3,414	1,910
Depreciation of investment properties (<i>note 14</i>)	1,110	1,049
Legal and professional fees	12,026	13,167
(Gain)/loss on disposal of property, plant and equipment	(133)	3

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

7. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Salaries, bonus and allowances	323,054	226,049
Retirement benefit scheme contributions (<i>note</i>)	56,489	39,043
Severance payments	1,193	591
Other employee benefits	2,620	11,507
	383,356	277,190

Note:

For the years ended 31 December 2022 and 2021, there were neither contributions forfeited by the Group nor had there been any utilisation of such forfeited contributions to reduce future contributions. As at 31 December 2022 and 2021, there were no forfeited contributions which were available for utilisation by the Group to reduce the existing level of contributions to the defined contribution retirement benefit scheme.

8. INCOME TAX EXPENSE

	<i>Note</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax – PRC enterprise income tax			
Current year		25,055	34,147
Over-provision in prior years		(2,712)	–
		22,343	34,147
Deferred tax	22		
Credited to profit or loss for the year		(7,630)	(3,833)
Total income tax expense		14,713	30,314

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

8. INCOME TAX EXPENSE (Continued)

The difference between the actual income tax charge in the consolidated statement of profit or loss and comprehensive income and the amount which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before income tax	118,277	138,950
Tax on profit before income tax, calculated at the statutory rates applicable to the tax jurisdiction concerned	24,904	30,121
Tax effect of non-deductible expenses	881	2,233
Tax effect of tax losses not recognised	–	841
Utilisation of tax losses previously not recognised	(8,360)	(2,881)
Over-provision in prior years	(2,712)	–
Income tax expense	14,713	30,314

Notes:

(a) **Cayman Islands income tax**

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

(b) **BVI income tax**

Pursuant to the relevant rules and regulations of BVI, the Group is not subject to any income tax in BVI for the years ended 31 December 2022 and 2021.

(c) **Hong Kong profits tax**

No provision for Hong Kong Profit Tax has been made as the Company has no assessable profits arising in Hong Kong in the current and prior years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

8. INCOME TAX EXPENSE (Continued)

Notes: (Continued)

(d) PRC enterprise income tax

The income tax provision of certain PRC entities of the Group has been calculated at the statutory tax rate of 25% on the estimated assessable profits for the years ended 31 December 2022 and 2021, based on the existing legislation, interpretations and practices in respect thereof.

The preferential income tax rate applicable to certain of the Group's PRC entities within the scope of the China's Western Development Program was 15% for the years ended 31 December 2022 and 2021.

Pursuant to the relevant laws and regulation in the PRC, certain of the Group's PRC entities which are qualified as small low-profit enterprises enjoyed a preferential tax rate of 20% for the years ended 31 December 2022 and 2021. 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 years ended 31 December 2022 and 2021, 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%.

9. DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: RMB Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

10. 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 year.

	2022	2021
Profit attributable to equity shareholders of the Company (<i>RMB'000</i>)	68,718	86,194
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (<i>thousands</i>)	560,000	552,439
Basic earnings per share (<i>expressed in RMB cents</i>)	12.27	15.60

b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2022 and 2021 equals the basic earnings per share as there were no dilutive potential ordinary shares in existence during the years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Name of director	Fees <i>RMB'000</i>	Basic salaries and allowances <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
2022				
Executive directors:				
Mr. Wang Wenhao <i>(Chief Executive Officer)</i>	-	833	140	973
Ms. Hu Hongfang	-	492	-	492
Non-executive directors:				
Mr. Liu <i>(Chairman)</i>	-	-	-	-
Mr. Zhou Wei	-	974	140	1,114
Independent non-executive directors:				
Mr. Qian Hongji	155	-	-	155
Dr. Li Yongrui	155	-	-	155
Mr. Fan Chi Chiu	155	-	-	155
Dr. Chen Lei	155	-	-	155
	620	2,299	280	3,199

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' remuneration (Continued)

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows: (Continued)

Name of director	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2021				
Executive directors:				
Mr. Wang Wenhao (Chief Executive Officer)	–	776	91	867
Ms. Hu Hongfang	–	428	–	428
Non-executive directors:				
Mr. Liu (Chairman)	–	–	–	–
Mr. Zhou Wei	–	125	30	155
Independent non-executive directors:				
Mr. Qian Hongji	149	–	–	149
Dr. Li Yongrui	149	–	–	149
Mr. Fan Chi Chiu	149	–	–	149
Dr. Chen Lei	149	–	–	149
	596	1,329	121	2,046

Note:

Mr. Wang Wenhao is also the chief executive officer of the Group.

The emoluments shown above represent emoluments received by these directors in the capacity as directors/employees of the companies comprising the Group for the years ended 31 December 2022 and 2021.

There were no arrangements under which a director of the Company waived or agreed to waive any remuneration during the years ended 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included 2 (2021: 2) directors whose emoluments are reflected in the analysis presented in note 11(a). The emoluments paid to the remaining 3 (2021: 3) individuals during the year are as follows:

	2022 RMB'000	2021 RMB'000
Basic salaries and allowances	2,342	1,549
Retirement benefit scheme contributions	376	270
	2,718	1,819

The emoluments fell within the following bands:

	Number of individuals	
	2022	2021
Emolument bands		
HK\$Nil – HK\$1,000,000	3	3

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2022 and 2021.

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For the year ended 31 December 2022

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture and fixtures and office equipment RMB'000	Motor vehicles RMB'000	Office premises RMB'000	Heating facility RMB'000	Staff quarters RMB'000	Total RMB'000
At 1 January 2021	6,542	3,794	1,035	2,115	201	199	13,886
Year ended 31 December 2021							
Opening net book amount	6,542	3,794	1,035	2,115	201	199	13,886
Acquisition of subsidiaries (note 27(b))	1,713	1,477	1,685	-	-	-	4,875
Additions	174	4,811	536	904	1,240	199	7,864
Disposals	-	(172)	(512)	-	-	-	(684)
Depreciation	(527)	(2,550)	(700)	(1,407)	(407)	(96)	(5,687)
Closing net book amount	7,902	7,360	2,044	1,612	1,034	302	20,254
At 31 December 2021							
Cost	8,787	14,207	6,795	5,290	2,247	411	37,737
Accumulated depreciation	(885)	(6,847)	(4,751)	(3,678)	(1,213)	(109)	(17,483)
Net book amount	7,902	7,360	2,044	1,612	1,034	302	20,254
Year ended 31 December 2022							
Opening net book amount	7,902	7,360	2,044	1,612	1,034	302	20,254
Acquisition of subsidiaries (note 27(a))	306	547	273	-	-	-	1,126
Additions	293	4,872	541	6,076	97	896	12,775
Disposals	-	(94)	(239)	-	-	-	(333)
Depreciation	(597)	(3,759)	(298)	(2,629)	(377)	(408)	(8,068)
Closing net book amount	7,904	8,926	2,321	5,059	754	790	25,754
At 31 December 2022							
Cost	9,386	19,532	7,370	7,393	1,131	1,229	46,041
Accumulated depreciation	(1,482)	(10,606)	(5,049)	(2,334)	(377)	(439)	(20,287)
Net book amount	7,904	8,926	2,321	5,059	754	790	25,754

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For the year ended 31 December 2022

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation charges recognised is analysed as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of sales	1,215	505
Administrative expenses	6,853	5,182
	8,068	5,687

As at 31 December 2022, included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	Carrying amount		Depreciation	
	As at 31 December 2022 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>	For the year ended 31 December 2022 <i>RMB'000</i>	For the year ended 31 December 2021 <i>RMB'000</i>
Office premises	5,059	1,612	2,629	1,407
Heating facility	754	1,034	377	407
Staff quarters	790	302	408	96
	6,603	2,948	3,414	1,910

During the year ended 31 December 2022, the total additions to right-of-use assets included in property, plant and equipment amounting to RMB7,069,000 (note 31(a)) (2021: RMB2,343,000). The details in relation to these leases are set out in note 20.

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13. INTANGIBLE ASSETS

	Customer relationships RMB'000	Computer software RMB'000	Total RMB'000
Year ended 31 December 2021			
Opening net book amount	19,637	5,232	24,869
Acquisition of subsidiaries (note 27(b))	66,527	528	67,055
Additions	–	1,616	1,616
Amortisation	(6,888)	(1,437)	(8,325)
Closing net book amount	79,276	5,939	85,215
At 31 December 2021			
Cost	87,402	9,269	96,671
Accumulated amortisation	(8,126)	(3,330)	(11,456)
Net book amount	79,276	5,939	85,215
	Customer relationships RMB'000	Computer software RMB'000	Total RMB'000
Year ended 31 December 2022			
Opening net book amount	79,276	5,939	85,215
Acquisition of subsidiaries (note 27(a))	54,763	85	54,848
Additions	–	1,196	1,196
Disposals	–	(194)	(194)
Amortisation	(11,874)	(1,695)	(13,569)
Closing net book amount	122,165	5,331	127,496
At 31 December 2022			
Cost	142,165	10,356	152,521
Accumulated amortisation	(20,000)	(5,025)	(25,025)
Net book amount	122,165	5,331	127,496

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For the year ended 31 December 2022

13. INTANGIBLE ASSETS (Continued)

Amortisation charges recognised is analysed as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Administrative expenses	13,569	8,325

14. INVESTMENT PROPERTIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Opening net book amount	28,768	29,817
Acquisition of subsidiaries (<i>note 27(a)</i>)	12,825	–
Depreciation	(1,110)	(1,049)
Closing net book amount	40,483	28,768

The Group's investment properties are held to earn rentals or for capital appreciation.

As at 31 December 2022, certain of the Group's investment properties of approximately RMB12,771,000 (2021: RMBNil) were pledged to secure certain bank borrowings granted to the Group (Note 21).

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For the year ended 31 December 2022

14. INVESTMENT PROPERTIES (Continued)

As at 31 December 2022, the carrying amount of the Group's investment properties attributable to the properties without the relevant title certificates was approximately RMB27,712,000 (2021: RMB28,768,000). The Group has obtained effective control to these investment properties through contractual arrangements with the sellers of the investment properties who hold the title certificates (the "Contractual Arrangement"). Pursuant to the Contractual Arrangement, the Group was entitled to occupy, use, dispose and lease these properties notwithstanding the absence of title certificates. As advised by the Company's PRC legal advisor, the Group had significant risks and rewards of these properties under the Contractual Arrangement. As such, the control, significant risks and rewards of these properties were vested with the Group and the Group had recognised these properties as investment properties.

The Group's investment properties are depreciated on a straight-line basis over the term of right of use.

As at 31 December 2022, the fair value of the Group's investment properties was approximately RMB133,400,000 (2021: RMB124,000,000). Valuations of the Group's investment properties as at 31 December 2022 and 2021 were carried out by an independent professional qualified valuer, Savills Valuation and Professional Services Limited, who holds a recognised relevant professional qualification and has recent experience in the locations and nature of the investment properties being valued. The fair value of investment properties is a level 3 recurring fair value measurement and is determined using market comparison approach by reference to recent market price for similar properties. The fair values of the properties without relevant title certificates were estimated as if the Group had valid title certificates. There were no changes to the valuation methodologies during the years ended 31 December 2022 and 2021. Increase/(decrease) in market unit rate would result in an increase/(decrease) in the fair value of the investment properties.

The followings amounts have been recognised in the consolidated statement of profit or loss and other comprehensive income for investment properties:

	2022 RMB'000	2021 RMB'000
Leasing income (not within the scope of IFRS 15) included in revenue from value-added services	3,838	1,868

Apart from depreciation charges of the investment properties, the Group has no material direct operating expenses arising from investment properties that generate leasing income.

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15. GOODWILL

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
As at 1 January	292,661	59,626
Acquisition of subsidiaries (<i>note 27</i>)	188,872	233,035
As at 31 December	481,533	292,661

During the year ended 31 December 2022, the Group completed the acquisition of two (2021: seven) subsidiaries engaged in the provision of property management services and related value-add services in the PRC (see note 27). Total identifiable net assets of these companies as at their respective acquisition dates amounted to approximately RMB19,285,000 (2021: RMB76,115,000). The excess of the consideration transferred and the amount of the non-controlling interests in the acquirees over the fair value of the identifiable net assets acquired is recorded as goodwill.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

15. GOODWILL (Continued)

For the purpose of impairment testing, the carrying amount of goodwill is allocated to the respective cash generating units ("CGUs") identified as follows:

CGUs identified	Principal activities	2022 RMB'000	2021 RMB'000
Shanghai Tongjin Property Management Services Co. Ltd. (上海同進物業服務有限公司) ("Shanghai Tongjin")	Provision of property management services and related value-added services	20,615	20,615
Shanghai Tongjia Property Management Services Co. Ltd (上海同嘉物業服務有限公司) ("Shanghai Tongjia")	Provision of property management services and related value-added services	112	112
Dongguan Baoying Property Management Company Limited (東莞市寶盈物業管理有限公司) ("Dongguan Baoying")	Provision of property management services and related value-added services	10,389	10,389
Guizhou Xingji Property Services Company Limited (貴州星際物業服務有限公司) ("Guizhou Xingji")	Provision of property management services and related value-added services	20,237	20,237
Hohhot Huigu Property Services Company Limited (呼和浩特市慧谷物業服務有限公司) ("Hohhot Huigu")	Provision of property management services and related value-added services	8,273	8,273
Zhongshan Zhongzheng Property Management Co., Ltd. (中山市中正物業管理有限公司) ("Zhongshan Zhongzheng")	Provision of property management services and related value-added services	8,798	8,798
Sichuan Wansheng Property Service Co., Ltd. (四川萬晟物業服務有限公司) ("Sichuan Wansheng")	Provision of property management services and related value-added services	34,073	34,073

Notes to the Consolidated Financial Statements

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15. GOODWILL (Continued)

For the purpose of impairment testing, the carrying amount of goodwill is allocated to the respective CGUs identified as follows: (Continued)

CGUs identified	Principal activities	2022 RMB'000	2021 RMB'000
Panjin Four Seasons City Property Management Co., Ltd. (盤錦四季城物業服務有限公司) (“Panjin Four Seasons”)	Provision of property management services and related value-added services	16,184	16,184
Jiangsu Shenhua Times Property Group Co., Ltd. (江蘇深華時代物業集團有限公司) (“Jiangsu Shenhua”)	Provision of property management services and related value-added services	31,299	31,299
Beijing He Zhong Zhidi Property Agency Co., Ltd. (北京和眾置地房地產經紀有限公司) (“Beijing He Zhong”)	Provision of property agency services	777	777
Guiyang Xinglong Property Management Co., Ltd (貴陽興隆物業管理有限公司) (“Guiyang Xinglong”)	Provision of property management services and related value-added services	141,904	141,904
Zunyi Jinning Property Management Co., Ltd. (遵義市金寧物業管理有限公司) (“Zunyi Jinning”)	Provision of property management services and related value-added services	54,692	N/A
Chongqing Xinlongxin Property Management Co., Ltd. (重慶新隆信物業管理有限公司) (“Chongqing Xinlongxin”)	Provision of property management services and related value-added services	134,180	N/A
		481,533	292,661

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For the year ended 31 December 2022

15. GOODWILL (Continued)

Goodwill in total of RMB481,533,000 (2021: RMB292,661,000) has been allocated to the CGUs of the respective subsidiaries acquired through business combinations for impairment testing at the end of the reporting period. The recoverable amounts of these subsidiaries are determined based on value in use calculations using pre-tax cash flow projections performed by an independent professional valuer, which are based on five-year financial budgets approved by management. The following table sets forth each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

	2022	2021
Shanghai Tongjin CGU		
Revenue growth rate during the forecast period	3% to 4%	3% to 6%
Gross profit margin during the forecast period	27% to 29%	31% to 34%
Terminal growth rate	2%	2%
Pre-tax discount rate	23.2%	19.9%
Shanghai Tongjia CGU		
Revenue growth rate during the forecast period	5%	0% to 19%
Gross profit margin during the forecast period	12% to 15%	19% to 20%
Terminal growth rate	2%	2%
Pre-tax discount rate	23.0%	22.2%
Dongguan Baoying CGU		
Revenue growth rate during the forecast period	5% to 6%	5%
Gross profit margin during the forecast period	22% to 29%	30% to 35%
Terminal growth rate	2%	2%
Pre-tax discount rate	26.8%	23.8%
Guizhou Xingji CGU		
Revenue growth rate during the forecast period	5% to 8%	5%
Gross profit margin during the forecast period	37% to 40%	31% to 33%
Terminal growth rate	2%	2%
Pre-tax discount rate	28.1%	24.3%

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For the year ended 31 December 2022

15. GOODWILL (Continued)

The following table sets forth each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill: (Continued)

	2022	2021
Hohhot Huigu CGU		
Revenue growth rate during the forecast period	7%	8%
Gross profit margin during the forecast period	39% to 43%	48% to 54%
Terminal growth rate	2%	2%
Pre-tax discount rate	27.0%	23.6%
Zhongshan Zhongzheng CGU		
Revenue growth rate during the forecast period	4% to 6%	8% to 10%
Gross profit margin during the forecast period	32% to 34%	28% to 29%
Terminal growth rate	2%	2%
Pre-tax discount rate	25.7%	23.3%
Sichuan Wansheng CGU		
Revenue growth rate during the forecast period	6% to 7%	5% to 8%
Gross profit margin during the forecast period	25% to 29%	31% to 32%
Terminal growth rate	2%	2%
Pre-tax discount rate	25.4%	23.4%
Panjin Four Seasons CGU		
Revenue growth rate during the forecast period	8% to 18%	10% to 20%
Gross profit margin during the forecast period	38% to 41%	63% to 68%
Terminal growth rate	2%	2%
Pre-tax discount rate	28.8%	24.2%
Jiangsu Shenhua CGU		
Revenue growth rate during the forecast period	7% to 10%	8% to 10%
Gross profit margin during the forecast period	40% to 42%	35% to 39%
Terminal growth rate	2%	2%
Pre-tax discount rate	27.8%	24.7%

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15. GOODWILL (Continued)

The following table sets forth each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill: (Continued)

	2022	2021
Beijing He Zhong CGU		
Revenue growth rate during the forecast period	5%	8%
Gross profit margin during the forecast period	27%	69%
Terminal growth rate	2%	2%
Pre-tax discount rate	24.4%	33.2%
Guiyang Xinglong CGU		
Revenue growth rate during the forecast period	6% to 7%	5%
Gross profit margin during the forecast period	31% to 34%	25%
Terminal growth rate	2%	2%
Pre-tax discount rate	20.7%	20.1%
Zunyi Jinning CGU		
Revenue growth rate during the forecast period	5% to 8%	N/A
Gross profit margin during the forecast period	28% to 29%	N/A
Terminal growth rate	2%	N/A
Pre-tax discount rate	23.5%	N/A
Chongqing Xinlongxin CGU		
Revenue growth rate during the forecast period	6% to 7%	N/A
Gross profit margin during the forecast period	14% to 18%	N/A
Terminal growth rate	2%	N/A
Pre-tax discount rate	19.5%	N/A

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For the year ended 31 December 2022

15. GOODWILL (Continued)

The key assumptions were determined based on past performance and managements expectation of market development. The discount rates used reflect specific risks relating to the Group's acquired business. Management believes that any reasonably possible change in any of these key assumptions and discount rates used would not cause the aggregate carrying amount of these CGUs to exceed the aggregate recoverable amount.

Based on the impairment testing of goodwill as detailed above, the recoverable amount of each of the CGUs exceeded the respective carrying amount of the CGUs and therefore no impairment of goodwill was considered necessary as at 31 December 2022 and 2021.

16. INVENTORIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Materials to be used in value-added services	1,254	398
Consumable parts	365	187
Closing net book amount	1,619	585

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17. TRADE AND OTHER RECEIVABLES

	Notes	2022 RMB'000	2021 RMB'000
Trade receivables	(a)		
– Third parties		382,025	178,985
– Related parties	28(b)	106,845	57,958
		488,870	236,943
Less: ECL allowance on trade receivables		(67,766)	(19,523)
		421,104	217,420
Other receivables	(b)		
Deposits and other receivables		88,319	52,250
Other deposits		109,693	39,666
Payment on behalf of property owners		13,459	21,165
Advances to employees		4,111	545
		215,582	113,626
Less: ECL allowance of other receivables		(2,029)	(3,296)
		213,553	110,330
Prepayments		9,020	7,189
		222,573	117,519
Less: Deposit paid for acquisition of a subsidiary included in non-current assets (net of allowance of RMB1,515,000) as at 31 December 2021		–	(50,735)
		222,573	66,784
		643,677	284,204

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17. TRADE AND OTHER RECEIVABLES (Continued)

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 relevant terms of the 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
0 – 90 days	99,294	62,865
91 – 180 days	57,481	36,143
181 – 365 days	97,460	54,111
1 to 2 years	104,675	49,629
2 to 3 years	43,917	14,672
Over 3 years	18,277	–
	421,104	217,420

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Balance at the beginning of the year	19,523	17,009
ECL allowance recognised	48,243	2,514
Balance at the end of the year	67,766	19,523

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17. TRADE AND OTHER RECEIVABLES (Continued)

a) Trade receivables (Continued)

The Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors. Details of the credit risk and ECL allowance on trade receivables are set out in note 32.2(i).

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

b) Other receivables

Payment on behalf of property owners

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

Advances to employees

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

Other deposits

Other deposits mainly represent deposits paid to government or property developers at the inception of entering into tenders for property management services contracts.

ECL allowance on other receivables measured at amortised cost

Impairment of other receivables from third parties (excluding prepayments) are assessed collectively and individually and measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. Impairment of amounts due from related parties was limited to 12-month ECL since the related parties have a strong capacity to meet its contractual cash flow in the near term. Details of the credit risk and ECL allowance on other receivables are set out in note 32.2(ii).

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17. TRADE AND OTHER RECEIVABLES (Continued)

b) Other receivables (Continued)

ECL allowance on other receivables measured at amortised cost

The movement of gross balance of other receivables measured at amortised cost is as follows:

	Stage 1 <i>RMB'000</i>
Balance at 1 January 2021	61,500
Acquisition of subsidiaries	45,882
New loans/amounts originated	19,381
Repayments during the year	(13,137)
Balance at 31 December 2021 and 1 January 2022	113,626
Acquisition of subsidiaries	76,501
New loans/amounts originated	163,432
Repayments during the year	(137,977)
Balance at 31 December 2022	215,582

The movement in the ECL allowance on other receivables measured at amortised cost is as follows:

	Stage 1 <i>RMB'000</i>
Balance at 1 January 2021	–
ECL allowance recognised	3,296
Balance at 31 December 2021 and 1 January 2022	3,296
ECL allowance reversed	(1,267)
Balance at 31 December 2022	2,029

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18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2022 RMB'000	2021 RMB'000
Wealth management products	(a)	–	–
Balance at 1 January		–	11,446
Acquisition of subsidiaries (note 27)		–	13,000
Additions		11,200	11,158
Fair value gain on financial assets at FVTPL		87	1,724
Disposals		(11,287)	(37,328)
Balance at 31 December		–	–

Note:

- a) The Group invested in various wealth management products. These products have no fixed term and have an expected return rate of 2.23% per annum (2021: 2.12% to 5.12% per annum). The fair values of these investments were determined based on the expected return as stipulated in relevant contracts with the counterparties. The significant unobservable input for the fair value measurement is the expected annual return rate. The higher the expected annual return rate, the higher the fair value. The fair value of the Group's investments in wealth management products have been measured as described in note 32.6.

During the year ended 31 December 2022, the Group sold all of the wealth management products and fair value gain on financial assets measured at fair value through profit or loss of RMB87,000 (2021: RMB1,724,000) was recognised as other income in the consolidated statement of profit or loss and other comprehensive income (see note 5).

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For the year ended 31 December 2022

19. TRADE AND OTHER PAYABLES

	Notes	2022 RMB'000	2021 RMB'000
Trade payables			
– Third parties	(a)	123,448	53,540
Other payables			
Accrued charges and other payables		169,650	10,322
Consideration payables	(ii)	59,138	52,145
Financial guarantees issued	(i)	18,439	19,000
Renovation deposits collected from property owners		75,074	46,188
Amounts collected on behalf of property owners		35,362	73,466
Other tax liabilities		25,975	15,992
Staff costs and welfare accruals		67,002	61,387
Amounts due to related parties	28(b)	–	634
		450,640	279,134
Less non-current portion:			
Consideration payable	(ii)	(20,000)	–
		430,640	279,134
		554,088	332,674

Notes to the Consolidated Financial Statements

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19. TRADE AND OTHER PAYABLES (Continued)

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, 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 Xinglong, the seller had undertaken to indemnify the Group against any losses arising from the litigations and claims against Guiyang Xinglong which had been incurred before the acquisition date. As at 31 December 2022, the maximum exposure of the financial guarantee contracts is RMB18,439,000 (31 December 2021: RMB38,000,000). According to the final court orders issued during the year ended 31 December 2022, the Group has 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 Xinglong has indemnified the Group for the total loss of RMB21,362,000 undertaken by the Group by offsetting this amount against the outstanding consideration payable to the seller. As at 31 December 2022, the financial liabilities relating to the remaining financial guarantee contracts of RMB18,439,000 (31 December 2021: RMB19,000,000) was recognised in the consolidated statement of financial position.

Restricted bank deposits include balances of RMB6,794,000 (2021: RMB9,845,000) which have 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 may not be used by the Group until the litigations are resolved.

- (ii) As at 31 December 2022, the consideration payables in respect the acquisition of Chongqing Xinlongxin and Guiyang Xinlong amounted to RMB43,000,000 (2021: RMB Nil) and RMB16,138,000 (2021: RMB52,145,000) respectively. Out of these outstanding balances as at 31 December 2022, the amount of RMB39,138,000 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:

	2022 RMB'000	2021 RMB'000
0 to 30 days	43,522	40,899
31 to 180 days	49,561	10,860
181 to 365 days	20,339	796
Over 1 year	10,026	985
	123,448	53,540

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20. LEASE LIABILITIES

Set out below are the carrying amount of lease liabilities and the movement during the year:

	2022 RMB'000	2021 RMB'000
As at 1 January	2,544	2,612
Interests (<i>note 6</i>)	245	186
Lease payments	(2,767)	(2,597)
New leases	7,069	2,343
As at 31 December	7,091	2,544
Less: Current portion	(3,767)	(1,897)
Non-current portion	3,324	647

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

20. LEASE LIABILITIES (Continued)

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Total lease payments:		
Due within one year	3,923	1,956
Due over one year but less than five years	3,401	694
	7,324	2,650
Future finance charges on lease liabilities	(233)	(106)
Present value of lease liabilities	7,091	2,544
Present value of the lease payments:		
Due within one year	3,767	1,897
Due over one year but less than five years	3,324	647
	7,091	2,544
Less: Portion due within one year included under current liabilities	(3,767)	(1,897)
Portion due after one year included under non-current liabilities	3,324	647

As at 31 December 2022, lease liabilities amounting to RMB7,091,000 (2021: RMB2,544,000) carried weighted-average effective interest rate ranging from 3.80% to 7.10% per annum (2021: 5.26% per annum) and are effectively secured by the related underlying assets as the rights to the leased assets would be reverted to the lessor in the event of default on repayment by the Group.

During the year ended 31 December 2022, the total cash outflows for the leases (including short-term leases) are RMB2,767,000 (2021: RMB2,597,000).

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For the year ended 31 December 2022

20. LEASE LIABILITIES (Continued)

Details of the lease activities

As at 31 December 2022 and 2021, the Group has entered into leases for office premises, heating facility and staff quarters.

Types of right-of-use assets	Financial statements items of right-of-use assets included in	Number of leases	Range of remaining lease term	Particulars
Office premises	Office premises in "Property, plant and equipment"	9 (2021: 5)	1.3 to 3 years (2021: 0.1 to 3 years)	<ul style="list-style-type: none"> Contains an option to renew the lease after the end of the contract by giving one-month notice to landlord before the end of the contract
Heating facility	Heating facility in "Property, plant and equipment"	1 (2021: 1)	1.5 years (2021: 2.5 years)	<ul style="list-style-type: none"> Contains an option to renew the lease after the end of the contract by giving three-months notice to lessor before the end of the contract
Staff quarters	Staff quarters in "Property, plant and equipment"	4 (2021: 4)	0.8 to 2.7 years (2021: 0.5 to 3 years)	<ul style="list-style-type: none"> Contains an option to renew the lease after the end of the contract by giving one-month notice to lessor before the end of the contract

The Group considered that no extension option or termination option would be exercised at the lease commencement date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

21. BANK BORROWINGS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Bank borrowings:		
– Secured	9,000	4,000

As at 31 December 2022 and 2021, the bank loans were secured by the personal properties of the former shareholders of a subsidiary and certain investment properties (note 14).

The bank borrowings are repayable as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within one year or on demand	5,000	–
After one year but within two years	1,000	4,000
After two years but within three years	3,000	–
	9,000	4,000

These borrowings carried interest at fixed rate ranging from 3.95% to 4.2% per annum (2021: 4.2% per annum)

At the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Fixed rate		
– Expiring beyond one year	477	407

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

22. DEFERRED TAXATION

The amounts recognised in the consolidated statement of financial position are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Deferred tax assets recognised in the consolidated statement of financial position	29,460	10,752
Deferred tax liabilities recognised in the consolidated statement of financial position	(26,789)	(20,853)

The movement of net deferred tax assets/(liabilities) are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At the beginning of the year	(10,101)	(5,344)
Acquisition of subsidiaries (<i>note 27</i>)	5,142	(8,590)
Credited to profit or loss (<i>note 8</i>)	7,630	3,833
At the end of the year	2,671	(10,101)

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For the year ended 31 December 2022

22. DEFERRED TAXATION (Continued)

The movements in deferred tax assets and liabilities are as follows:

Deferred tax assets

	Provision and accruals RMB'000	ECL allowance on receivables RMB'000	Total RMB'000
At 1 January 2021	2,221	4,352	6,573
Acquisition of subsidiaries (<i>note 27(b)</i>)	–	3,719	3,719
(Charged)/credited to profit or loss	(220)	680	460
At 31 December 2021 and 1 January 2022	2,001	8,751	10,752
Acquisition of subsidiaries (<i>note 27(a)</i>)	242	13,114	13,356
Credited to profit or loss	412	4,940	5,352
At 31 December 2022	2,655	26,805	29,460

Deferred tax liabilities

	Fair value of financial assets at FVTPL RMB'000	Fair value adjustments on business combinations RMB'000	Withholding tax on undistributed earnings RMB'000	Total RMB'000
At 1 January 2021	(1,879)	(5,438)	(4,600)	(11,917)
Acquisition of subsidiaries (<i>note 27(b)</i>)	–	(12,309)	–	(12,309)
Credited to profit or loss	1,879	1,494	–	3,373
At 31 December 2021 and 1 January 2022	–	(16,253)	(4,600)	(20,853)
Acquisition of subsidiaries (<i>note 27(a)</i>)	–	(8,214)	–	(8,214)
Credited to profit or loss	–	2,278	–	2,278
At 31 December 2022	–	(22,189)	(4,600)	(26,789)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

22. DEFERRED TAXATION (Continued)

Deferred tax liabilities (Continued)

As at 31 December 2022, accumulated profits of the Group's subsidiaries established in the PRC amounted to RMB297,355,000 (2021: RMB220,137,000) which would be subject to withholding taxes according to the relevant laws and regulations in the PRC. In the opinion of the directors, the Group controls the dividend policy of these subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

The directors expect to declare and distribute the accumulated profits amounting to RMB46,000,000 (2021: RMB46,000,000) in the foreseeable future and accordingly, deferred tax liabilities of RMB4,600,000 (2021: RMB4,600,000) was recognised. As at 31 December 2022, the aggregate amount of temporary differences associated undistributed retained earnings for which deferred tax liabilities have not been recognised amounting to approximately RMB251,355,000 (2021: RMB153,001,000).

As at 31 December 2022, the Group had unused tax losses of approximately RMB12,796,000 (2021: RMB10,947,000) to carry forward against future taxable income of certain subsidiaries. No deferred tax asset had been recognised in respect of these losses due to the unpredictability of future profit streams.

Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at the reporting date will expire in the following years:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
2022	–	2,639
2023	2,776	1,391
2024	3,942	1,818
2025	598	4,965
2026	4,620	134
2027	860	–
	12,796	10,947

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

23. SHARE CAPITAL

	Number of shares	Nominal value of shares <i>United States dollar ("US\$")</i>
Authorised:		
<i>Ordinary shares of the Company:</i>		
Ordinary shares at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	5,000,000,000	50,000

	Number of shares	Nominal value of shares <i>US\$</i>	Equivalent nominal value of shares <i>RMB'000</i>
<i>Notes</i>			
Issued and fully paid:			
<i>Ordinary shares of the Company:</i>			
As at 1 January 2021	480,000,000	4,800	34
Issue of shares upon placing of shares (i)	80,000,000	800	4
As at 31 December 2021, 1 January 2022 and 31 December 2022	560,000,000	5,600	38

Notes:

- (i) On 14 January 2021, the Company entered into a placing agreement with a placing agent in respect of the placing of up to 80,000,000 new shares at an issue price of HK\$2.00 per share. On 5 February 2021, the placing was completed and 80,000,000 new shares were placed by the placing agent to not less than six places at an issue price of HK\$2.00 per share resulting in raising proceeds, before expenses, of HK\$160,000,000 (equivalents to RMB133,404,000), of which RMB4,000 was credited to the share capital account and RMB133,400,000 was credited to the share premium account. The related transaction costs amounted to RMB2,001,000 had been recorded in the share premium account.

24. RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value.

b) Statutory reserve

In accordance with the relevant laws and regulations for the Group's subsidiaries incorporated in the PRC, it is required to appropriate 10% of its annual statutory net profit determined in accordance with China Accounting Standards for Enterprises issued by the Ministry of Finance of PRC, after offsetting any prior years' losses, to the statutory reserve. When the balance of such a reserve reaches 50% of the registered capital of the respective company, any further appropriation is at the discretion of shareholders. The statutory reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the reserve after such an issue is not less than 25% of registered capital. The statutory reserve is non-distributable.

c) Capital reserve

The capital reserve of the Group represents the capital contribution from the shareholders.

d) Exchange reserve

The exchange reserve comprises all foreign exchanges differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2.4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

24. RESERVES (Continued)

e) The amounts of the Company's reserves and the movements are presented as follows:

	Share premium RMB'000	Merger reserve RMB'000 (note)	Exchange reserve RMB'000	Accumulated losses RMB'000	Total reserves RMB'000
At 1 January 2021	187,853	101,178	(8,986)	(65,656)	214,389
Loss for the year	–	–	–	(8,854)	(8,854)
Other comprehensive income for the year					
– Exchange differences on translation of the Company's financial statements into its presentation currency	–	–	(5,768)	–	(5,768)
	–	–	(5,768)	(8,854)	(14,622)
Issuance of shares upon placement of shares (note 23(i))	133,400	–	–	–	133,400
Issuance expenses of placing of new shares (note 23(i))	(2,001)	–	–	–	(2,001)
At 31 December 2021 and 1 January 2022	319,252	101,178	(14,754)	(74,510)	331,166
Loss for the year	–	–	–	(6,023)	(6,023)
Other comprehensive income for the year					
– Exchange differences on translation of the Company's financial statements into its presentation currency	–	–	22,899	–	22,899
At 31 December 2022	319,252	101,178	8,145	(80,533)	348,042

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

24. RESERVES (Continued)

e) The amounts of the Company's reserves and the movements are presented as follows: (Continued)

Note: Merger reserve represents the difference between the fair values of the subsidiaries being acquired and the nominal value of the Company's share capital issued in exchange.

As at 31 December 2022, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB339,897,000 (2021: RMB345,920,000).

25. SHARE OPTION SCHEME

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

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

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

No option of the Company was granted to the Company's employees and other eligible participants since the Adoption Date and up to the date of these consolidated financial statements.

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For the year ended 31 December 2022

26. COMMITMENTS

a) Lease commitments

As lessor

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within one year	686	686
After one year but within two years	686	686
After two years but within three years	686	686
After three years but within four years	343	686
After four years but within five years	–	343
	2,401	3,087

b) Capital commitments

Capital commitments at the end of the reporting period not provided for were as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Acquisition of subsidiaries	–	39,200

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For the year ended 31 December 2022

27. ACQUISITION OF SUBSIDIARIES

- (a) During the year ended 31 December 2022, the Group acquired two subsidiaries from independent third parties.

(i) **Subsidiaries acquired**

	Principal activities	Date of acquisition	Proportion of shares acquired	Cash consideration transferred <i>RMB'000</i>
Zunyi Jinning (遵義市金寧物業管理有限公司)	Provision of property management services and related value-added services	10 April 2022	68.75%	91,450
Chongqing Xinlongxin (重慶新隆信物業管理有限公司)	Provision of property management services and related value-added services	23 October 2022	100%	100,000

The English names of the PRC companies referred to above in this note represent management's best effort in translating the Chinese names of those companies as no English names have been registered or available.

The above subsidiaries were acquired to expand the Group's property management service portfolio and provide synergies to its existing property management business.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

27. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

(ii) Fair value of the identifiable assets and liabilities of the subsidiaries acquired at the respective acquisition dates

	Zunyi Jinning RMB'000	Chongqing Xinlongxin RMB'000	Total RMB'000
Property, plant and equipment (note 12)	187	939	1,126
Intangible assets (note 13)	26,242	28,606	54,848
Investment properties (note 14)	–	12,825	12,825
Deferred tax assets (note 22)	3,424	9,932	13,356
Trade and other receivables, net of ECL allowance	58,600	136,361	194,961
Prepayments	227	27	254
Inventories	267	545	812
Bank balances and cash	12,456	10,229	22,685
Contract liabilities	(18,615)	(47,551)	(66,166)
Trade and other payables	(18,320)	(174,300)	(192,620)
Long-term borrowings	–	(5,000)	(5,000)
Income tax liabilities	(7,067)	(2,515)	(9,582)
Deferred tax liabilities (note 22)	(3,936)	(4,278)	(8,214)
Total identifiable net assets/ (liabilities) acquired	53,465	(34,180)	19,285

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For the year ended 31 December 2022

27. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

(iii) Non-controlling interests

The non-controlling interest of 31.25% in Zunyi Jinning at the acquisition date amounted to RMB16,707,000 which was measured by reference to the proportionate share of the recognised amount of net assets of Zunyi Jinning.

(iv) Goodwill arising on acquisitions

	Zunyi Jinning RMB'000	Chongqing Xinlongxin RMB'000	Total RMB'000
Cash considerations	91,450	100,000	191,450
Fair value of identifiable net (assets)/liabilities	(53,465)	34,180	(19,285)
Non-controlling interests	16,707	–	16,707
Goodwill arising on acquisition	54,692	134,180	188,872

Goodwill arose in the acquisition of Zunyi Jinning and Chongqing Xinlongxin as the considerations transferred included a control premium. In addition, the considerations transferred effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Zunyi Jinning and Chongqing Xinlongxin. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Notes to the Consolidated Financial Statements

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27. ACQUISITION OF SUBSIDIARIES (Continued)

(a) (Continued)

(v) Net cash outflow on acquisition of subsidiaries

	<i>RMB'000</i>
Total cash considerations	191,450
Cash deposit paid as at 31 December 2021	(52,250)
Deferred consideration (<i>note</i>)	(43,000)
Bank balances and cash acquired	(22,685)
	<hr/> 73,515 <hr/>

Note:

Consideration payable for the acquisition of Chongqing Xinlongxin amounted to RMB43,000,000 was included in other payables as at 31 December 2022.

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

Included in the profit for the year ended 31 December 2022 is profit of RMB14,821,000 attributable to the additional business generated by Zunyi Jinning and profit of RMB4,334,000 attributable to Chongqing Xinlongxin. Revenue for the year ended includes RMB90,980,000 in respect of Zunyi Jinning and RMB40,631,000 in respect of Chongqing Xinlongxin.

If the acquisitions had occurred on 1 January 2022, the Group's revenue and profit for the year ended 31 December 2022 would have been RMB1,232,449,000 and RMB107,998,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor is it intended to be a projection of future results.

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For the year ended 31 December 2022

27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) During the year ended 31 December 2021, the Group acquired seven subsidiaries from independent third parties.

(i) Subsidiaries acquired

	Principal activities	Date of acquisition	Proportion of shares acquired	Cash consideration transferred RMB'000
Zhongshan Zhongzheng (中山市中正物業管理有限公司)	Provision of property management services and related value-added services	4 January 2021	51%	15,400
Sichuan Wansheng (四川萬晟物業服務有限公司)	Provision of property management services and related value-added services	25 January 2021	60%	42,900
Panjin Four Seasons (盤錦四季城物業服務有限公司)	Provision of property management services and related value-added services	25 May 2021	51%	18,360
Jiangsu Shenhua (江蘇深華時代物業集團有限公司)	Provision of property management services and related value-added services	16 March 2021	51%	40,800
Beijing He Zhong (北京和眾置地房地產經紀有限公司)	Provision of property agency services	16 June 2021	51%	2,000
Hunan Jinying (湖南金鷹物業管理有限公司)	Provision of property management services and related value-added services	18 May 2021	51%	—*
Guiyang Xinglong (貴陽興隆物業管理有限公司)	Provision of property management services and related value-added services	2 August 2021	70%	156,800

* The cash consideration amount less than RMB1,000

The English names of the PRC companies referred to above in this note represent management's best effort in translating the Chinese names of those companies as no English names have been registered or available.

The above subsidiaries were acquired to expand the Group's property management service portfolio and provide synergies to its existing property management business.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

(ii) Fair value of the identifiable assets and liabilities of the subsidiaries acquired at the respective acquisition dates

	Zhongshan Zhongzheng RMB'000	Sichuan Wansheng RMB'000	Jiangsu Shenhua RMB'000	Hunan Jinying RMB'000	Panjin Four Seasons RMB'000	Beijing He Zhong RMB'000	Guiyang Xinglong RMB'000	Total RMB'000
Property, plant and equipment (note 12)	-	562	531	33	2,033	-	1,716	4,875
Intangible assets (note 13)	5,202	11,808	13,775	-	4,313	-	31,957	67,055
Deferred tax assets (note 22)	-	73	1,182	-	63	-	2,401	3,719
Financial assets at fair value through profit or loss	-	-	-	-	-	-	13,000	13,000
Trade and other receivables	593	59,607	43,743	596	2,796	2,432	96,279	206,046
Inventories	-	8	163	-	10	-	70	251
Restricted bank deposits	-	-	-	-	-	-	9,845	9,845
Bank balances and cash	12,203	5,410	2,054	213	5,936	60	5,921	31,797
Contract liabilities	(91)	-	-	(396)	-	-	(36,705)	(37,192)
Trade and other payables	(3,490)	(60,575)	(34,188)	(440)	(9,759)	-	(86,647)	(195,099)
Long-term borrowings	-	-	(4,000)	-	-	-	-	(4,000)
Income tax liabilities	(171)	(411)	(1,188)	(6)	(47)	(93)	(9,957)	(11,873)
Deferred tax liabilities (note 22)	(1,301)	(1,771)	(3,444)	-	(1,078)	-	(4,715)	(12,309)
Total identifiable net assets acquired	12,945	14,711	18,628	-	4,267	2,399	23,165	76,115

(iii) Non-controlling interests

The non-controlling interests in Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, Hunan Jinying, Panjin Four Seasons, Beijing He Zhong and Guiyang Xinglong of 49%, 40%, 49%, 49%, 49%, 49% and 30% recognised at the respective acquisition dates, respectively, were measured by reference to the respective proportionate share of the recognised amounts of net assets of Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, Hunan Jinying, Panjin Four Seasons, Beijing He Zhong and Guiyang Xinglong amounted to RMB6,343,000, RMB5,884,000, RMB9,127,000, RMB Nil, RMB2,091,000, RMB1,176,000 and RMB8,269,000, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

(iv) Goodwill arising on acquisitions

	Zhongshan Zhongzheng RMB'000	Sichuan Wansheng RMB'000	Jiangsu Shenhua RMB'000	Hunan Jinying RMB'000	Panjin Four Seasons RMB'000	Beijing He Zhong RMB'000	Guiyang Xinglong RMB'000	Total RMB'000
Cash considerations	15,400	42,900	40,800	-	18,360	2,000	156,800	276,260
Fair value of identifiable net assets	(12,945)	(14,711)	(18,628)	-	(4,267)	(2,399)	(23,165)	(76,115)
Non-controlling interests	6,343	5,884	9,127	-	2,091	1,176	8,269	32,890
Goodwill arising on acquisition	8,798	34,073	31,299	-	16,184	777	141,904	233,035

Goodwill arose in the acquisition of Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, Hunan Jinying, Panjin Four Seasons, Beijing He Zhong and Guiyang Xinglong as the considerations transferred included a control premium. In addition, the considerations transferred effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Zhongshan Zhongzheng, Sichuan Wansheng, Jiangsu Shenhua, Hunan Jinying, Panjin Four Seasons, Beijing He Zhong and Guiyang Xinglong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

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27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

(v) Net cash outflow on acquisitions of subsidiaries

	<i>RMB'000</i>
Total cash considerations	276,260
Cash deposit paid as at 31 December 2020	(7,800)
Deferred consideration (<i>note</i>)	(52,145)
Bank balances and cash acquired	(31,797)
	<hr/> 184,518

Note:

Consideration payables for the acquisition of Sichuan Wansheng and Guiyang Xinglong amounted to RMB2,145,000 and RMB50,000,000 respectively were included in other payables as at 31 December 2021.

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

Included in the profit for the year ended 31 December 2021 is profit of RMB2,932,000 attributable to the additional business generated by Zhongshan Zhongzheng, and profit of RMB7,316,000 attributable to Sichuan Wansheng, profit of RMB8,047,000 attributable to Jiangsu Shenhua, loss of RMB85,000 attributable to Hunan Jinying, profit of RMB4,260,000 attributable to Panjin Four Seasons, profit of RMB990,000 attributable to Beijing He Zhong and profit of RMB12,774,000 attributable to Guiyang Xinglong and its subsidiary. Revenue for the year ended 31 December 2021 includes RMB36,307,000 in respect of Zhongshan Zhongzheng and RMB54,637,000 in respect of Sichuan Wansheng, RMB45,898,000 in respect of Jiangsu Shenhua, RMB1,802,000 in respect of Hunan Jinying, RMB18,533,000 in respect of Panjin Four Seasons, RMB5,050,000 in respect of Beijing He Zhong and RMB79,339,000 in respect of Guiyang Xinglong.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

27. ACQUISITION OF SUBSIDIARIES (Continued)

(b) (Continued)

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

If the acquisitions had occurred on 1 January 2021, the Group's revenue and profit for the year ended 31 December 2021 would have been RMB885,413,000 and RMB143,805,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results.

28. MATERIAL RELATED PARTY TRANSACTIONS

The Group's accounting policies on related parties are disclosed in note 2.26. In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties:

(a) The transactions with related parties of the Group carried out in the ordinary course of business were as follows:

	2022 RMB'000	2021 RMB'000
Companies controlled by Mr. Liu		
Revenue arising from provision of property management and value-added services*	52,433	63,960

* These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

28. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

	2022 RMB'000	2021 RMB'000
<u>Amounts due from related parties</u>		
Trade receivables		
– companies controlled by Mr. Liu (<i>note</i>)	80,759	39,035
<u>Amounts due to related parties</u>		
Other payables		
– companies controlled by Mr. Liu (<i>note</i>)	–	634

Note: The amounts due were non-trade in nature, unsecured, interest-free and fully settled during the year.

(c) 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:

	2022 RMB'000	2021 RMB'000
Directors' fees	620	597
Salaries, bonus and allowances	2,299	2,934
Retirement benefit scheme contributions	280	390
	3,199	3,921

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29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 RMB'000	2021 RMB'000
Non-current assets		
Investments in subsidiaries (<i>note</i>)	102,870	93,978
	102,870	93,978
Current assets		
Amounts due from subsidiaries	254,875	233,102
Bank balances and cash	3,752	10,056
	258,627	243,158
Current liabilities		
Other payables	13,417	5,932
Net current assets	245,210	237,226
Net assets	348,080	331,204
EQUITY		
Share capital	38	38
Reserves (<i>note 24(e)</i>)	348,042	331,166
Total equity	348,080	331,204

Approved and authorised for issue by the board of directors on 31 March 2023.

Note: Details of the principal subsidiaries are stated in note 30.

Wang Wenhao
Director

Hu Hongfang
Director

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For the year ended 31 December 2022

30. PARTICULARS OF SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Country/place and date of incorporation/ establishment	Issued and paid-up capital/ registered capital	Equity interest held	Principal activities and principal country of operation
Directly held by the Company				
Hevol Group Limited ³	Hong Kong/ 7 June 2018	US\$1	100% (2021: 100%)	Agency business and Investment holding in Hong Kong
Rime Venture Limited ³	BVI/ 28 March 2018	US\$1	100% (2021: 100%)	Investment holding in the British Virgin Islands
Indirectly held by the Company				
Rime Venture (HK) Limited ³	Hong Kong/ 23 May 2018	US\$1	100% (2021: 100%)	Investment holding in Hong Kong
Guizhou WFOE ¹ 貴州福瑞盈信息諮詢有限公司 ¹	PRC/ 13 September 2018	RMB340,575,600	100% (2021: 100%)	Management consultation and Investment holding in Mainland China
Guizhou Hevol Abundance Property Management Limited ² 貴州和泓豐盈物業管理有限公司 ²	PRC/ 19 July 2018	RMB5,000,000	100% (2021: 100%)	Investment holding in Mainland China
Beijing Hongsheng Investment Limited ("Beijing Hongsheng") 北京泓升投資有限責任公司 ²	PRC/ 13 January 2006	RMB30,000,000	100% (2021: 100%)	Management consultation and Investment holding in Mainland China
Beijing Hevol Property Services ² 北京和泓物業服務有限公司 ²	PRC/ 9 April 2002	Registered: RMB60,000,000 Issued and paid- up: RMB12,000,000	100% (2021: 100%)	Property management services in Mainland China

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

30. PARTICULARS OF SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 December 2022 and 2021 are as follows: (Continued)

Name of subsidiary	Country/place and date of incorporation/ establishment	Issued and paid-up capital/ registered capital	Equity interest held	Principal activities and principal country of operation
Indirectly held by the Company (Continued)				
Tianjin Hevol Property Management Services Company Limited ² 天津和泓物業管理服務有限公司 ²	PRC/ 30 April 2008	Registered: RMB50,000,000 Issued and paid-up: RMB1,000,000	100% (2021: 100%)	Property management services in Mainland China
Chongqing Hevol Property Services Company Limited ² 重慶和泓物業服務有限公司 ²	PRC/ 22 June 2007	RMB10,000,000	100% (2021: 100%)	Property management services in Mainland China
Tangshan Hevol Property Services Company Limited ² 唐山和泓物業服務有限公司 ²	PRC/ 11 January 2011	RMB500,000	100% (2021: 100%)	Property management services in Mainland China
Shenyang Hevol Property Services Company Limited ² 瀋陽和泓物業服務有限公司 ²	PRC/ 16 August 2010	RMB1,000,000	100% (2021: 100%)	Property management services in Mainland China
Hunan Hehua Property Services Company Limited ² 湖南和華物業服務有限公司 ²	PRC/ 26 November 2012	RMB2,000,000	100% (2021: 100%)	Property management services in Mainland China
Guiyang Hevol Property Services Company Limited ² 貴陽和泓物業服務有限公司 ²	PRC/ 9 November 2006	RMB500,000	100% (2021: 100%)	Property management services in Mainland China

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30. PARTICULARS OF SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 December 2022 and 2021 are as follows: (Continued)

Name of subsidiary	Country/place and date of incorporation/ establishment	Issued and paid-up capital/ registered capital	Equity interest held	Principal activities and principal country of operation
Indirectly held by the Company (Continued)				
Hainan Hevol Hotel Property Services Company Limited ² 海南和泓酒店物業服務有限公司 ²	PRC/ 18 January 2012	RMB5,000,000	100% (2021: 100%)	Property management services in Mainland China
Beijing Hongyun Education Consulting Services Company Limited ² 北京泓韻教育諮詢服務有限公司 ²	PRC/ 22 August 2019 Deregistered on 19 April 2022	RMB5,000,000	100% (2021: 100%)	Education consulting services in Mainland China
Shanghai Tongjin Property Management Services Co. Ltd ² 上海同進物業服務有限公司 ²	PRC/ 29 May 2003	Registered: RMB50,000,000 Issued and paid-up: RMB5,000,000	70% (2021: 70%)	Property management services in Mainland China
Jiangsu Tongjin Property Management Services ² 江蘇同進物業服務有限公司 ²	PRC/ 9 January 2009	RMB5,000,000	70% (2021: 70%)	Property management services in Mainland China
Shanghai Wanrun Property Management Co., Ltd. ² 上海萬潤物業管理有限公司 ²	PRC/ 5 April 2005	RMB500,000	70% (2021: 70%)	Property management services in Mainland China
Gongqingcheng Jiaying Investment Management Company Limited ² 共青城嘉盈私募基金管理有限公司 ²	PRC/ 9 March 2020	Registered: RMB10,000,000 Issued and paid-up: RMB3,000,000	100% (2021: 100%)	Inactive

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30. PARTICULARS OF SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 December 2022 and 2021 are as follows: (Continued)

Name of subsidiary	Country/place and date of incorporation/ establishment	Issued and paid-up capital/ registered capital	Equity interest held	Principal activities and principal country of operation
Indirectly held by the Company (Continued)				
Shanghai Tongjia Property Management Services Co. Ltd ² 上海同嘉物業服務有限公司 ²	PRC/ 31 October 2018	Registered: RMB25,000,000 Issued and paid-up: RMB6,250,000	60% (2021: 60%)	Property management services in Mainland China
Dongguan Baoying Property Management Company Limited ² 東莞市寶盈物業管理有限公司 ²	PRC/ 2 May 2013	RMB3,000,000	60% (2021: 60%)	Property management services in Mainland China
Guizhou Xingji Property Services Company Limited ² 貴州星際物業服務有限公司 ²	PRC/ 11 September 2009	RMB2,000,000	51% (2021: 51%)	Property management services in Mainland China
Anshun Hevol Property Services Company Limited ² 安順和泓物業服務有限公司 ²	PRC/ 31 August 2020	RMB1,000,000	100% (2021: 100%)	Property management services in Mainland China
Hohhot Huigu Property Services Company Limited ² 呼和浩特市慧谷物業服務有限公司 ²	PRC/ 26 October 2012	RMB500,000	65% (2021: 65%)	Property management services in Mainland China

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30. PARTICULARS OF SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 December 2022 and 2021 are as follows: (Continued)

Name of subsidiary	Country/place and date of incorporation/ establishment	Issued and paid-up capital/ registered capital	Equity interest held	Principal activities and principal country of operation
Indirectly held by the Company (Continued)				
Zhongshan Zhongzheng Property Management Co., Ltd. ² 中山市中正物業管理有限公司 ²	PRC/ 18 January 2008	RMB10,000,000	51% (2021: 51%)	Property management services in Mainland China
Sichuan Wansheng Property Service Co., Ltd. ² 四川萬晟物業服務有限公司 ²	PRC/ 23 April 2013	RMB5,000,000	60% (2021: 60%)	Property management services in Mainland China
Jiangsu Shenhua Times Property Group Co., Ltd. ² 江蘇深華時代物業集團有限公司 ²	PRC/ 5 September 2008	Registered: RMB20,000,000 Issued and paid-up: RMB5,000,000	51% (2021: 51%)	Property management services in Mainland China
Hunan Jinying Property Management Co., Ltd. ² 湖南金鷹物業管理有限公司 ²	PRC/ 22 May 2019	Registered: 3,000,000 Issued and paid-up: RMBNil	51% (2021: 51%)	Property management services in Mainland China
Panjin Four Seasons Property Management Co., Ltd. ² 盤錦四季城物業管理有限公司 ²	PRC/ 23 August 2006	Registered: RMB10,000,000 Issued and paid-up: RMB3,000,000	51% (2021: 51%)	Property management services in Mainland China
Beijing He Zhong Real Estate Agency Co., Ltd. ² 北京和眾置地房地產經紀有限公司 ²	PRC/ 5 January 2007	Registered: RMB10,000,000 Issued and paid-up: RMB2,000,000	51% (2021: 51%)	Property agency services in Mainland China

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

30. PARTICULARS OF SUBSIDIARIES (Continued)

Details of the principal subsidiaries at 31 December 2022 and 2021 are as follows: (Continued)

Name of subsidiary	Country/place and date of incorporation/ establishment	Issued and paid-up capital/ registered capital	Equity interest held	Principal activities and principal country of operation
Indirectly held by the Company (Continued)				
Guiyang Xinglong Property Management Co., Ltd. ² 貴陽興隆物業管理有限公司 ²	PRC/ 10 June 2004	RMB10,000,000	70% (2021: 70%)	Property management services in Mainland China
Zunyi Jinning Property Management Co., Ltd. ^{2,4} 遵義市金寧物業管理有限公司 ^{2,4}	PRC/ 19 August 2004	RMB5,000,000	68.75% (2021: Nil)	Property management services in Mainland China
Chongqing Xinlongxin Property Management Co., Ltd. ^{2,5} 重慶新隆信物業管理有限公司 ^{2,5}	PRC/ 01 August 2003	RMB5,000,000	100% (2021: Nil)	Property management services in Mainland China

¹ Registered as a wholly foreign-owned enterprise under the PRC law

² Registered as a limited liability company under the PRC law

³ Incorporated as a limited liability company under local jurisdiction

⁴ Acquired on 10 April 2022

⁵ Acquired on 23 October 2022

The English names of certain companies referred herein represent management's best effort at translating the Chinese names of these companies as no English name has been registered.

All companies comprising the Group have adopted 31 December as their financial year end date.

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For the year ended 31 December 2022

30. PARTICULARS OF SUBSIDIARIES (Continued)

The Group includes the following subsidiaries with material non-controlling interests (“**NCI**”), the details and the summarised financial information, before intragroup eliminations, are as follows:

Zunyi Jinning:

	2022 <i>RMB'000</i>
NCI percentage	31.25%
Current assets	87,190
Non-current assets	3,626
Current liabilities	(44,227)
Non-current liabilities	(607)
Net assets	45,982
Carrying amount of NCI	14,369
Revenue	90,980
Profit and total comprehensive income for the period	14,821
Profit and total comprehensive income attributable to NCI	4,631
Net cash generated from operating activities	11,643
Net cash used in investing activities	(3,282)
Net cash inflows for the period	8,361

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

30. PARTICULARS OF SUBSIDIARIES (Continued)

Guiyang Xinglong and its subsidiary:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
NCI percentage	30%	30%
Current assets	207,326	182,820
Non-current assets	6,960	34,235
Current liabilities	(179,723)	(177,124)
Non-current liabilities	(521)	(4,518)
Net assets	34,042	35,413
Carrying amount of NCI	10,213	11,821
Revenue	174,842	79,339
Profit and total comprehensive income for the year/period	24,288	12,774
Profit and total comprehensive income attributable to NCI	7,286	4,079
Net cash (used in)/generated from operating activities	(69,487)	47,554
Net cash (used in)/generated from investing activities	(215)	35,284
Net cash (outflows)/inflows for the year/period	(69,702)	82,838

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a) Major non-cash transactions

During the year ended 31 December 2022, the Group entered into certain lease contracts in which additions to right-of-use assets and lease liabilities amounting to RMB7,069,000 (2021: RMB2,343,000) (note 12) was recognised at the lease commencement date.

During the year ended 31 December 2022, the seller of Guiyang Xinglong has indemnified the Group for the loss arising from the financial guarantees issued of RMB21,362,000 by offsetting against the consideration payable by the Group for the acquisition of Guiyang Xinglong. Further details are set out in note 19.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

b) Reconciliation of liabilities arising from financing activities

The table below set out the reconciliation of liabilities arising from financing activities for the years ended 31 December 2022 and 2021.

	Bank borrowings <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Amounts due to related parties <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2021	–	2,612	2,283	4,895
Cash flows				
– Proceeds	–	–	634	634
– Repayments	–	–	(2,283)	(2,283)
– Payment of capital element of leases	–	(2,411)	–	(2,411)
– Payment of interest element of leases	–	(186)	–	(186)
Non-cash transactions				
– Acquisition of subsidiaries (note 27(b))	4,000	–	–	4,000
– Entering into new leases	–	2,343	–	2,343
– Interest expenses on lease liabilities	–	186	–	186
At 31 December 2021	4,000	2,544	634	7,178
Cash flows				
– Repayments	–	–	(634)	(634)
– Payment of capital element of leases	–	(2,522)	–	(2,522)
– Payment of interest element of leases	–	(245)	–	(245)
Non-cash transactions				
– Acquisition of subsidiaries (note 27(a))	5,000	–	–	5,000
– Entering into new leases	–	7,069	–	7,069
– Interest expenses on lease liabilities	–	245	–	245
At 31 December 2022	9,000	7,091	–	16,091

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk). The Group's overall risk management strategy seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the board of directors.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

32.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortised cost		
– Trade and other receivables	634,657	327,750
– Restricted bank deposits	7,319	9,845
– Bank balances and cash	275,922	391,228
Financial liabilities		
Financial liabilities at amortised cost		
– Bank borrowings	9,000	4,000
– Trade and other payables	529,675	297,682
Financial guarantee issued	18,439	19,000
Lease liabilities	7,091	2,544

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.2 Credit risk

Credit risk refers to the risk that the counterparty to a financial assets would fail to discharge its obligation under the terms of the financial assets and cause a financial loss to the Group. The Group's maximum exposure to credit risk in relation to financial assets is limited to the carrying amount at each reporting date as disclosed in note 32.1.

(i) *Trade receivables*

The Group's policy is to deal only with credit worthy counterparties. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers.

In addition, as set out in note 2.10, the Group assesses ECL under IFRS 9 on trade receivables based on provision matrix, the ECL rates are based on the payment profile for sales in the past 36 months as well as the corresponding historical credit losses during that period. The management would also make individual assessment on the recoverability of trade receivables from related parties. The historical rates are adjusted to reflect current and forwarding-looking macroeconomic factors (including the change in economic environment arising from COVID-19) affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within credit terms and failure to engage with the Group on alternative payment arrangement amongst other are considered indicators of no reasonable expectation of recovery.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.2 Credit risk (Continued)

(i) Trade receivables (Continued)

Details of the estimation of ECL allowance on trade receivables are set out below:

	Third parties						Related parties	Total
	0-90 days	91-180 days	181-365 days	1-2 years	2-3 years	>3 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2022								
Weighted average expected credit loss rate	0.8%	2.3%	2.6%	8.3%	21.3%	38.1%	19.1%	
Gross carrying amount	66,959	40,267	63,464	87,127	61,308	62,900	106,845	488,870
ECL allowance	505	946	1,675	7,207	13,063	23,962	20,408	67,766
At 31 December 2021								
Weighted average expected credit loss rate	1.6%	3.6%	5.2%	7.0%	34.6%	56.6%	0.1%	
Gross carrying amount	41,299	26,586	43,812	39,077	14,301	13,910	57,958	236,943
ECL allowance	642	966	2,297	2,744	4,954	7,874	46	19,523

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.2 Credit risk (Continued)

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, amounts due from related parties and bank balances and cash. The Group has large number of counterparties for its other receivables other than those from related parties. There was no concentration of credit risk. In order to minimise the credit risk of other receivables and amounts due from related parties, the management would make periodic collective and individual assessment on the recoverability of other receivables and amounts due from related parties based on historical settlement records and past experience as well as collateral and current external information and adjusted to reflect probability-weighted forward-looking information, including the default rate where the relevant debtors operates. Other monitoring procedures are in place to ensure that follow-up actions are taken to recover overdue debts. In addition, the management is of the opinion that there is no significant increase in credit risk on these financial assets since initial recognition as the risk of default is low after considering the factors as set out in note 2.10 and, thus, ECL recognised is based on 12-month ECL.

Bank deposits are mainly placed with state-owned financial institutions and reputable banks which are all high-credit-quality financial institutions. The management does not expect that there will be any significant losses from non-performance by these counterparties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.2 Credit risk (Continued)

(ii) Other financial assets at amortised cost (Continued)

The gross carrying amount of other receivables by stage is as follows:

	12-month ECLs Stage 1 RMB'000	Stage 2 RMB'000	Lifetime ECLs Stage 3 RMB'000	Total RMB'000
At 31 December 2022				
Other receivables	215,582	–	–	215,582
At 31 December 2021				
Other receivables	113,626	–	–	113,626

The movement in provision for impairment of other receivables are as follows:

	12-month ECLs RMB'000	Lifetime ECLs RMB'000	Total RMB'000
At 1 January 2021			
ECL allowance recognised	3,296	–	3,296
At 31 December 2021 and 1 January 2022			
ECL allowance reversed	(1,267)	–	(1,267)
At 31 December 2022	2,029	–	2,029

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.3 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of their recognised financial liabilities as summarised in note 32.1, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2022 and 2021. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The contractual maturity analyses below is based on the undiscounted cash flows of the financial liabilities:

	Within 1 year or on demand <i>RMB'000</i>	Over 1 year but within 2 years <i>RMB'000</i>	Over 2 years but within 5 years <i>RMB'000</i>	Total contractual undiscounted amount <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
As at 31 December 2022					
Trade and other payables	509,675	20,000	–	529,675	529,675
Bank borrowings	5,282	1,136	3,071	9,489	9,000
Lease liabilities	3,923	3,012	389	7,324	7,091
	518,880	24,148	3,460	546,488	545,766
Financial guarantee	18,439	–	–	18,439	18,439
As at 31 December 2021					
Trade and other payables	297,682	–	–	297,682	297,682
Bank borrowings	–	4,336	–	4,336	4,000
Lease liabilities	1,956	694	–	2,650	2,544
	299,638	5,030	–	304,668	304,226
Financial guarantee	38,000	–	–	38,000	19,000

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.4 Interest rate risk

The Group is exposed to the cash flow interest rate risk and fair value interest rate risk for its bank deposits, bank borrowings and lease liabilities, respectively. No sensitivity analysis is presented since the directors consider the exposure of cash flow interest rate and fair value interest rate risk arising from variable-rate bank deposits, bank borrowings and lease liabilities, respectively, will not be significant in the near future.

32.5 Foreign currency risk

Foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2022, the Group has bank balances of RMB271,545,000 (2021: RMB359,664,000) denominated in RMB placed with banks in the PRC. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group does not hedge its foreign currency risk. However, management monitors the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.6 Fair value measurements

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability and significance of inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and not using significant unobservable inputs.
- Level 3: significant unobservable inputs for the asset or liability.

There was no transfer into or out of level 3 during the years ended 31 December 2022 and 2021.

The following table presents the changes in level 3 financial assets for the years ended 31 December 2022 and 2021:

	<i>RMB'000</i>
At 1 January 2021, 31 December 2021 and 1 January 2022	–
Additions	11,200
Fair value change included in profit or loss	87
Disposals	(11,287)
At 31 December 2022	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

32.6 Fair value measurements (Continued)

The fair values of these investments were determined based on the expected return rate as stipulated in relevant contract with the counterparties.

The fair values of these investments were determined based on the expected return rate as stipulated in relevant contract with the counterparties.

The fair values of the Group's financial assets and liabilities other than financial assets at FVTPL are not materially different from their carrying amounts because of the immediate or short maturity of these financial instruments.

33. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. As part of this review, the directors of the Company consider cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

34. EVENTS AFTER THE REPORTING PERIOD

Other than those disclosed elsewhere in these financial statements, the Group has the following significant event after the reporting period:

Further to Note 19, certain financial guarantee contracts has been settled after the reporting period. Pursuant to the sale and purchase agreement of acquisition of Guiyang Xinglong, the sellers have undertaken to indemnify the Group against any losses arising from the litigations and claims against Guiyang Xinglong which had been incurred before the acquisition date.

Five-Year Financial Summary

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue	224,450	248,275	415,870	766,791	1,041,221
Cost of sales	(143,958)	(164,142)	(266,965)	(502,598)	(745,913)
Gross profit	80,492	84,133	148,905	264,193	295,308
Other income	1,573	4,743	9,529	15,496	16,220
Expected credit loss ("ECL") allowance on trade and other receivables	–	4,534	(6,162)	(5,810)	(46,976)
Administrative expenses	(39,966)	(52,353)	(77,265)	(134,464)	(145,810)
Listing-related expenses	(11,694)	(17,693)	–	–	–
Finance costs	–	(150)	(187)	(465)	(465)
Profit before income tax	30,405	23,214	74,820	138,950	118,277
Income tax expense	(13,519)	(9,421)	(14,843)	(30,314)	(14,713)
Profit for the year	16,886	13,793	59,977	108,636	103,564
Other comprehensive expense for the year, net of nil tax					
<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	–	–	(5,573)	(981)	22,155
Total comprehensive income for the year	16,886	13,793	54,404	107,655	125,719

Five-Year Financial Summary

	Year ended 31 December				2022 RMB'000
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	
Profit for the year attributable to:					
Equity shareholders of the Company	16,886	13,793	56,357	86,194	68,718
Non-controlling interests	–	–	3,620	22,442	34,846
	16,886	13,793	59,977	108,636	103,564
Total comprehensive income for the year attributable to:					
Equity shareholders of the Company	16,886	13,793	50,784	85,213	90,873
Non-controlling interests	–	–	3,620	22,442	34,846
	16,886	13,793	54,404	107,655	125,719
Earnings per share attributable to owners of the Company (expressed in RMB cents)					
Basic and diluted	5.63	3.97	12.76	15.60	12.27

Five-Year Financial Summary

CONSOLIDATED ASSETS, EQUITY AND LIABILITIES

	As at 31 December				
	2018	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	40,657	67,966	142,571	488,385	704,726
Current assets	219,557	238,690	470,675	685,862	928,537
Total assets	260,214	306,656	613,246	1,174,247	1,633,263
Equity and Liabilities					
Total equity	80,106	164,456	327,199	588,026	711,468
Non-current liabilities	4,600	6,788	12,559	25,500	54,113
Current liabilities	175,508	135,412	273,488	560,721	867,682
Total Liabilities	180,108	142,200	286,047	586,221	921,795
Total equity and liabilities	260,214	306,656	613,246	1,174,247	1,633,263