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INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS

1. Revenue for the six months ended June 30, 2023 was approximately RMB444.9 million, representing an increase of 19.6% as compared to the corresponding period in 2022.
2. Revenue by business lines for the Reporting Period was as follows: (i) revenue from property management services was approximately RMB282.7 million, accounting for 63.5% of the total revenue, representing an increase of 26.0% as compared to the corresponding period in 2022; (ii) revenue from value-added services to non-property owners was approximately RMB59.6 million, accounting for 13.4% of the total revenue, representing a decrease of 24.4% as compared to the corresponding period in 2022; (iii) revenue from community value-added services was approximately RMB74.3 million, accounting for 16.7% of the total revenue, representing an increase of 25.4% as compared to the corresponding period in 2022; and (iv) revenue from city services was approximately RMB28.4 million, accounting for 6.4% of the total revenue, representing an increase of 192.9% as compared to the corresponding period in 2022.
3. Gross profit for the Reporting Period was approximately RMB112.0 million, representing an increase of 5.9% as compared to the corresponding period in 2022. Gross profit margin was 25.2%, representing a decrease of 3.2% as compared to the corresponding period in 2022.
4. Profit for the Reporting Period was approximately RMB59.5 million, representing an increase of 4.9% as compared to the corresponding period in 2022. Profit for the Reporting Period attributable to owners of the Company was approximately RMB50.9 million, representing an increase of 2.8% as compared to the corresponding period in 2022.

5. The contracted GFA in respect of property management services during the Reporting Period was approximately 65.5 million sq.m., representing an increase of 7.2% as compared to approximately 61.1 million sq.m. for 2022, among which approximately 52.7 million sq.m. or 80.5% were from third party property developers. The GFA under management was approximately 36.9 million sq.m., representing an increase of 25.1% as compared to approximately 29.5 million sq.m. for 2022, among which approximately 29.4 million sq.m. or 79.6% were from third party property developers. The GFA under management of non-residential properties was approximately 6.1 million sq.m., representing an increase of 57.6% as compared to approximately 3.9 million sq.m. for 2022, among which approximately 99.0% of non-residential properties were from third party property developers.
6. The Board resolved not to declare any interim dividend for the six months ended June 30, 2023.

The board (the “**Board**”) of directors (the “**Directors**”) of Kangqiao Service Group Limited (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “**Group**” or “**Kangqiao Service**”) for the six months ended June 30, 2023 (the “**Reporting Period**”) with comparative figures for the corresponding period in 2022 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in RMB thousand unless otherwise stated)

	Notes	Six months ended June 30,	
		2023 (Unaudited)	2022 (Unaudited)
Revenue	5	444,939	372,018
Cost of sales	6	(332,969)	(266,294)
Gross profit		111,970	105,724
Administrative expenses	6	(29,108)	(22,721)
Selling and marketing expenses	6	(5,275)	(6,213)
Net impairment losses on financial assets		(9,702)	(11,609)
Other income		7,480	6,672
Other losses- net		(2,746)	(4,696)
Operating profit		72,619	67,157
Finance income		2,052	2,625
Finance costs		(402)	(689)
Finance income - net		1,650	1,936
Share of profit of investments accounted for using the equity method		585	453
Profit before income tax		74,854	69,546
Income tax expenses	7	(15,392)	(12,853)
Profit for the period		59,462	56,693
Profit attributable to:			
– Owners of the Company		50,858	49,456
– Non-controlling interests		8,604	7,237
		59,462	56,693
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
– Exchange difference on translation of foreign operations		3,418	5,589
Total comprehensive income for the period		62,880	62,282
Total comprehensive income attributable to:			
– Owners of the Company		54,276	55,045
– Non-controlling interests		8,604	7,237
		62,880	62,282
Earnings per share			
– Basic and diluted (expressed in RMB per share)	8	0.073	0.071

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousand unless otherwise stated)

		<u>As at 30 June</u>	<u>As at 31</u>
	Notes	2023	December
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property and equipment		13,768	13,829
Right-of-use assets		2,411	3,013
Investment properties		1,267	2,081
Intangible assets		51,237	52,918
Deferred income tax assets		22,920	21,652
Prepayments	9	69,984	69,730
Restricted cash		1,254	1,253
Investments accounted for using the equity method		2,538	1,953
		<u>165,379</u>	<u>166,429</u>
Current assets			
Inventory		1,338	1,014
Prepayments	9	1,527	3,308
Trade and other receivables	9	698,686	598,869
Restricted cash		14,310	10,847
Financial assets at fair value through profit or loss		11,179	43,094
Cash and cash equivalents		372,733	345,910
		<u>1,099,773</u>	<u>1,003,042</u>
Total assets		<u><u>1,265,152</u></u>	<u><u>1,169,471</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		5,831	5,831
Other reserves		543,868	540,450
Retained earnings		215,940	165,082
		<u>765,639</u>	711,363
Non-controlling interests		46,286	45,002
Total equity		<u><u>811,925</u></u>	<u><u>756,365</u></u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts expressed in RMB thousand unless otherwise stated)

	Notes	As at 30 June 2023 (Unaudited)	As at 31 December 2022 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,639	2,387
Deferred income tax liabilities		5,957	6,314
Other payables	10	4,791	5,747
Contract liabilities		4,329	5,341
		<u>16,716</u>	<u>19,789</u>
Current liabilities			
Lease liabilities		7,698	7,131
Trade and other payables	10	261,951	274,012
Contract liabilities		160,964	104,711
Current income tax liabilities		5,898	7,463
		<u>436,511</u>	<u>393,317</u>
Total liabilities		<u>453,227</u>	<u>413,106</u>
Total equity and liabilities		<u>1,265,152</u>	<u>1,169,471</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION

(All amounts expressed in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION

Kangqiao Service Group Limited (the “Company”) was incorporated in the Cayman Islands on October 8, 2020 as an exempted company with limited liability under the Companies Act, Cap. 22 (Revised) of the Cayman Islands. The address of its registered office is Floor 4, Willow House, Cricket Square, Grand Cayman, KY1-9010, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in provision of property management services, related value-added services and city services in the People’s Republic of China (the “PRC”). The ultimate controlling entity of the Group is Hung Fai Property Limited, which is controlled by Mr. Song Gewei (“Mr. Song”, the “Controlling Shareholder”).

The interim condensed consolidated balance sheet as at June 30, 2023, and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes (collectively defined as the “Interim Financial Information”) of the Group have been approved for issuance by the Board of Directors of the Company (the “Board”) on August 31, 2023.

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

The Interim Financial Information has not been audited.

2 BASIS OF PREPARATION

This Interim Financial Information for the six months ended June 30, 2023 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The Interim Financial Information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2022 which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), and any public announcements made by the Group during the interim reporting period.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Amendments to existing standards adopted by the Group

The Group has applied the following amendments for the first time for the reporting period commencing January 1, 2023. The adoption of these amendments does not have significant impact on the Interim Financial Information of the Group.

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction International Tax Reform— Pillar Two Model Rules

(b) New standards and amendments to existing standards that have been issued but are not effective for the financial year beginning on January 1, 2023 and have not been early adopted by the Group are as follows:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to HKAS 16	Lease liability in sale and leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised))	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

4 SEGMENT INFORMATION

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

During the six months ended June 30, 2023 and 2022, the Group is principally engaged in provision of property management services, related value-added services and city services in the PRC. Management of the Company reviews the operating results of the business as a single reportable segment as the nature of services, the type of customers for services, the method used to provide their services and the nature of regulatory environment is same in different regions.

During the six months ended June 30, 2023 and 2022, all the revenue of the Group were derived in the PRC. As at June 30, 2023, substantially all assets of the Group were located in the PRC.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

5 REVENUE

Revenue of the Group mainly comprises of proceeds from property management services, related value-added services and city services. An analysis of the Group's revenue by categories for the six months ended June 30, 2023 and 2022 is as follows:

	Six months ended June 30,	
	2023 (Unaudited)	2022 (Unaudited)
Property management services	282,719	224,302
Value-added services to non-property owners	59,554	78,798
Community value-added services	74,264	59,220
City services	28,402	9,698
	<u>444,939</u>	<u>372,018</u>
Timing of revenue recognition:		
- Over time	381,775	302,585
- At a point in time	63,164	69,433
	<u>444,939</u>	<u>372,018</u>

For the six months ended June 30, 2023, revenue from entities controlled by Mr. Song contributed 9.3% (six months ended June 30, 2022: 13.8%) of the Group's revenue. None of the Group's customers contributed 10% or more of the Group's revenue during the six months ended June 30, 2023 (six months ended June 30, 2022: other than entities controlled by Mr. Song, none of the Group's customers contributed 10% or more of the Group's revenue).

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

6 EXPENSES BY NATURE

	Six months ended June 30,	
	2023 (Unaudited)	2022 (Unaudited)
Employee benefit expenses	95,883	80,638
Greening and cleaning expenses	78,167	56,709
Security service costs	61,157	53,765
Maintenance and customer service costs	31,104	28,041
Utilities	19,188	15,067
Cost of goods sold	17,134	8,983
Sales agency service costs	16,685	18,636
Decoration business cost	9,660	5,587
Office expenses	9,096	5,928
Travelling and entertainment expenses	2,069	2,649
Amortisation of intangible assets	1,681	1,696
Depreciation of property and equipment	1,828	1,577
Depreciation of investment properties	813	906
Depreciation of right-of-use assets	602	770
Others	22,285	14,276
	<u>367,352</u>	<u>295,228</u>

7 INCOME TAX EXPENSES

	Six months ended June 30,	
	2023 (Unaudited)	2022 (Unaudited)
Current income tax		
- PRC corporate income tax	17,013	17,259
Deferred income tax		
- PRC corporate income tax	(1,621)	(4,406)
	<u>15,392</u>	<u>12,853</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

7 INCOME TAX EXPENSES (CONTINUED)

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

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was provided as the Group did not have assessable profit in Hong Kong for the six months ended June 30, 2023 (six months ended June 30, 2022: same).

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

Pursuant to the Detailed Implementation Regulations of the Corporate Income Tax Law issued on December 6, 2007, dividends distributed from the profits generated by the PRC companies after January 1, 2008 to their foreign investors shall be subject to this withholding income tax of 10%, a lower 5% withholding income tax rate may be applied when the immediate holding companies of the subsidiaries in Mainland China are incorporated in Hong Kong and fulfil the requirements to the tax treaty arrangements between Mainland China and Hong Kong. The Group has not accrued any withholding income tax for the undistributed earnings of its subsidiaries in Mainland China during the six months ended June 30, 2023 as the Group is able to control the timing of distributions from subsidiaries and is not expected to distribute these profits out of Mainland China in the foreseeable future.

8 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2023 and 2022.

The Company did not have any potential ordinary shares outstanding during the six months ended June 30, 2023 and 2022. Diluted earnings per share was equal to basic earnings per share.

	<u>Six months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Profit attributable to owners of the Company (RMB'000)	50,858	49,456
Weighted average number of ordinary shares in issue (in thousands)	700,000	700,000
Basic and diluted earnings per share attributable to the owners of the Company during the period (expressed in RMB per share)	0.073	0.071

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

9 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	<u>As at June 30, 2023</u> (Unaudited)	<u>As at December 31, 2022</u> (Audited)
Trade receivables (Notes (a) and (b))		
- Related parties	290,907	264,844
- Third parties	308,350	225,712
	<u>599,257</u>	<u>490,556</u>
Less: allowance for impairment of trade receivables	<u>(60,616)</u>	<u>(49,313)</u>
	<u>538,641</u>	<u>441,243</u>
Other receivables		
- Amounts due from related parties	116,837	121,460
- Cash advances to non-controlling interests	230	230
- Deposits	30,971	34,028
- Others	24,626	15,316
	<u>172,664</u>	<u>171,034</u>
Less: allowance for impairment of other receivables	<u>(12,619)</u>	<u>(13,408)</u>
	<u>160,045</u>	<u>157,626</u>
Prepayments		
- Prepayments to third-party suppliers	71,511	73,038
	<u>770,197</u>	<u>671,907</u>
Less: non-current portion of prepayment (Note (c))	<u>(69,984)</u>	<u>(69,730)</u>
Current portion of trade and other receivables and prepayments	<u>700,213</u>	<u>602,177</u>

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

9 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

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

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

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

- (b) As at June 30, 2023 and December 31, 2022, the ageing analysis of the trade receivables based on recognition date were as follows:

	<u>As at June 30,</u> <u>2023</u> <u>(Unaudited)</u>	<u>As at</u> <u>December 31,</u> <u>2022</u> <u>(Audited)</u>
Up to 1 year	344,875	295,043
1 to 2 years	187,604	167,219
2 to 3 years	54,941	19,250
Over 3 years	<u>11,837</u>	<u>9,044</u>
	<u>599,257</u>	<u>490,556</u>

- (c) As at June 30, 2023 and December 31, 2022, the non-current portion of prepayments mainly represented a prepayment of RMB65,629,000 for the acquisition of 80% equity interest in a property management service company.
- (d) As at June 30, 2023 and December 31, 2022, trade and other receivables were denominated in RMB and the carrying amounts of trade and other receivables approximated their fair values.

NOTES TO THE INTERIM FINANCIAL INFORMATION (CONTINUED)

(All amounts expressed in RMB thousand unless otherwise stated)

10 TRADE AND OTHER PAYABLES

	As at <u>June 30,</u> 2023 (Unaudited)	As at <u>December 31,</u> 2022 (Audited)
Trade payables (Note (a))		
- Related parties	263	248
- Third parties	<u>69,988</u>	<u>74,243</u>
	<u>70,251</u>	<u>74,491</u>
Other payables		
- Amounts due to related parties	11,068	13,302
- Payables for acquisition of a subsidiary	4,594	4,594
- Deposits	72,241	59,755
- Accrued payroll	37,350	38,471
- Provision for ECL allowance on financial guarantees	276	1,088
- Other tax payables	5,378	5,133
- Others	<u>65,584</u>	<u>82,925</u>
	<u>196,491</u>	<u>205,268</u>
	<u>266,742</u>	<u>279,759</u>
Less: non-current portion of other payables	<u>(4,791)</u>	<u>(5,747)</u>
Current portion of trade and other payables	<u>261,951</u>	<u>274,012</u>

(a) As at June 30, 2023 and December 31, 2022, ageing analysis of the trade payables based on invoice date were as follows:

	As at <u>June 30,</u> 2023 (Unaudited)	As at <u>December 31,</u> 2022 (Audited)
Up to 1 year	64,309	70,927
1 to 2 years	3,581	2,730
2 to 3 years	1,996	640
Over 3 years	<u>365</u>	<u>194</u>
	<u>70,251</u>	<u>74,491</u>

(b) As at June 30, 2023 and December 31, 2022, trade and other payables were mainly denominated in RMB and the carrying amounts of trade and other payables approximated their fair values.

11 DIVIDENDS

The Board does not recommend any payment of an interim dividend for the six months ended June 30, 2023 (six months ended June 30, 2022: same).

A final dividend in respect of the year ended December 31, 2022 of RMB0.057 per ordinary share have been proposed by the Board and subject to the approval of the shareholders of the Company at the annual general meeting of the Company to be held on September 6, 2023. The final dividend will be distributed out of the Company's share premium. These condensed consolidated financial statements have not reflected these dividends payable.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

(1) Business Overview

2023 is an important year for the real estate industry to break the cold and recover. As a listed property enterprise, Kangqiao Service continues to (i) provide high-quality services of "satisfaction + refinement" for property owners in this extraordinary year; (ii) fulfill its commitment to shareholders of the Company (the "**Shareholders**") with stable business performance; and (iii) be responsible for the employees, so that the employees, with a sense of belonging and security, can devote themselves to work, and provide continuous and satisfactory services to the property owners.

At present, the Group's business covers a variety of property types, including residential property, non-residential property (such as commercial, office buildings, industrial parks, hospitals and other public infrastructure), and provision of city services (such as rail transit sanitation, city environmental sanitation and other services). The Group's business involves property management services, value-added services to non-property owners and community value-added services. All business areas are interconnected and market-oriented for balanced development. During the Reporting Period, the Group's revenue was approximately RMB444.9 million, representing an increase of 19.6% as compared to approximately RMB372.0 million for the corresponding period in 2022.

As at June 30, 2023, the Group provided property management services and value-added services in 31 cities in the People's Republic of China (the "**PRC**"), with the number of 252 projects under management and a contracted gross floor area (the "**GFA**") of approximately 65.5 million sq.m., representing an increase of 7.2% as compared to the corresponding period in 2022, among which approximately 52.7 million sq.m. or 80.5% were from third party property developers. The GFA under management was approximately 36.9 million sq.m., representing an increase of 25.1% as compared to approximately 29.5 million sq.m. for the corresponding period in 2022, among which approximately 29.4 million sq.m. or 79.6% were from third party property developers. The GFA under management of non-residential properties was approximately 6.1 million sq.m., representing an increase of 57.6% as compared to approximately 3.9 million sq.m. for the corresponding period in 2022, among which approximately 99.0% of non-residential properties were from third party property developers.

(2) Four Major Business Lines

The Group is a reputable comprehensive property management services provider in the PRC, with a leading position in Henan. In April 2023, the Group was awarded the title of "2023 China Top 100 Property Management Companies" by China Index Academy, with its overall industry strength ranking increased by two places to 27th compared with the year of 2022. The Group generates its revenue mainly from four business lines: (i) property management services; (ii) value-added services to non-property owners; (iii) community value-added services; and (iv) city services.

Property management services — the Group provides property owners, property developers, residents of residential properties as well as tenants in non-residential properties with a wide range of property management services, which typically include security, cleaning, greening, gardening, repairs and maintenance services. The Group's portfolio of properties under management comprises of residential properties and non-residential properties, such as commercial properties, office buildings, industrial parks, hospitals and other public infrastructure, and city services such as railway cleaning and sanitation services. The Group's business has been effectively improved in 2023, especially in terms of increase in the GFA under management of non-residential properties of the Group by approximately 57.6% as compared to the corresponding period in 2022. Revenue from property management services was approximately RMB282.7 million, accounting for 63.5% of the total revenue, representing an increase of 26.0% as compared to the corresponding period in 2022.

Value-added services to non-property owners — the Group provides value-added services to non-property owners, primarily property developers, mainly consisting of (i) sales office management services to property developers' sales offices and show flats, such as visitor reception, cleaning and security maintenance services; (ii) pre-delivery services that the Group offers to property developers at different stages before the delivery of properties from the perspective of property owners and future property management services, primarily including optimization of construction blueprints at the drawing design stage, quality control during the construction process, the services of measurement and inspection of completed units prior to delivery; (iii) sales agency services in which the Group mainly facilitates property developers in selling their first-hand properties prior to property delivery; (iv) construction site management services in which the Group provides daily security maintenance services to constructors and property developers, such as video surveillance, emergency response, access control and visitor management; and (v) consultancy services for property developers and property management companies in relation to sales and management of projects. Revenue from value-added services to non-property owners provided by the Group was approximately RMB59.6 million, representing a decrease of 24.4% as compared to that of approximately RMB78.8 million for the corresponding period in 2022. The decrease of the revenue from value-added services to non-property owners was due to the shrinking of real estate business under the influence of policies.

Community value-added services — the Group also provides a comprehensive range of community value-added services to property owners and residents to improve their living experiences and to preserve and increase the value of their assets. These services primarily include (i) home-living services, such as housekeeping and cleaning services, home maintenance services, decoration and move-in furnishing services and shopping services; (ii) community operation services with respect to managing community spaces and optimizing the utilization of public resources, such as assisting third-party vendors in seeking suitable places to operate or promote their businesses, facilitating their promotional events, daily cleaning and equipment maintenance; and (iii) asset operation services, primarily including property agency services with respect to second-hand properties and unsold parking spaces after property delivery, as well as rental service in relation to parking spaces and shops. Revenue from community value-added services provided by the Group was approximately RMB74.3 million, representing an increase of 25.4% as compared to that of approximately RMB59.2 million for the corresponding period in 2022.

City services — the Group can provide a wide range of city services, which mainly include (i) rail transit sanitation services; (ii) city environmental sanitation; (iii) waste sorting and treatment; (iv) installation of road facilities; (v) landscaping project; (vi) old communities renovation; and (vii) setting up smart block construction, etc. During the Reporting Period, the Group’s revenue from the city services was approximately RMB28.4 million, representing an increase of 192.9% as compared to that of approximately RMB9.7 million for the corresponding period in 2022.

II. OUTLOOK AND STRATEGY

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

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

III. FINANCIAL REVIEW

Revenue

The Group's revenue was mainly generated from four major businesses: (i) property management services; (ii) value-added services to non-property owners; (iii) community value-added services; and (iv) city services. During the Reporting Period, the Group's revenue was approximately RMB444.9 million, representing an increase of 19.6% as compared to approximately RMB372.0 million for the corresponding period in 2022.

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

	Six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Property management services	282,719	63.5	224,302	60.3
Value-added services to non-property owners	59,554	13.4	78,798	21.2
Community value-added services	74,264	16.7	59,220	15.9
City services	28,402	6.4	9,698	2.6
Total	444,939	100.0	372,018	100.0

Property management services

During the Reporting Period, the Group's revenue from the provision of property management services amounted to approximately RMB282.7 million, representing an increase of 26.0% as compared to approximately RMB224.3 million for the corresponding period in 2022, which was mainly attributable to the rapid increase in the total GFA under management as a result of the Group's business expansion.

Value-added services to non-property owners

During the Reporting Period, the Group's revenue from the provision of value-added services to non-property owners amounted to approximately RMB59.6 million, representing a decrease of 24.4% as compared to approximately RMB78.8 million for the corresponding period in 2022. The decrease in revenue from value-added services to non-property owners was due to the shrinking of real estate business under the influence of policies.

Community value-added services

During the Reporting Period, the Group's revenue from the provision of community value-added services amounted to approximately RMB74.3 million, representing an increase of 25.4% as compared to approximately RMB59.2 million for the corresponding period in 2022.

City services

During the Reporting Period, the Group's revenue from the city services amounted to approximately RMB28.4million, representing an increase of 192.9% as compared to approximately RMB9.7 million for the corresponding period in 2022.

Cost of sales

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

During the Reporting Period, the Group's cost of sales was approximately RMB333.0 million, representing an increase of approximately 25.0% as compared to approximately RMB266.3 million for the corresponding period in 2022. The increase in cost of sales was mainly in line with the increase in sales.

Gross profit and gross profit margin

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

	Six months ended June 30,			
	2023		2022	
	Gross profit	Gross profit	Gross profit	Gross profit
	RMB'000	margin	RMB'000	margin
		%		%
Property management services	66,881	23.7	52,282	23.3
Value-added services to non-property owners	17,649	29.6	29,298	37.2
Community value-added services	24,517	33.0	23,169	39.1
City services	2,923	10.3	975	10.1
Total	111,970	25.2	105,724	28.4

During the Reporting Period, the Group's gross profit margin was 25.2%, representing a decrease of 3.2% as compared to 28.4% for the corresponding period in 2022, which was mainly due to the decrease of volume of the value-added services to non-property owners business.

The gross profit margin of property management services was 23.7%, representing an increase from 23.3% for the corresponding period in 2022.

The gross profit margin of value-added services to non-property owners was 29.6%, representing a decrease from 37.2% for the corresponding period in 2022, which was mainly

due to the reduction of newly opened marketing centers and new development projects, the volume of the value-added services to non-property owners has decreased.

The gross profit margin of community value-added services was 33.0%, representing a decrease from 39.1% for the corresponding period in 2022, which was mainly due to the gradual increase of volume of community goods, which has a lower profit margin.

The gross profit margin of city services was 10.3%, representing a slightly increase from 10.1% for the corresponding period in 2022.

Other income

During the Reporting Period, the Group's other income amounted to approximately RMB7.5 million, representing an increase of 12.1% as compared to approximately RMB6.7 million for the corresponding period in 2022. The increase was mainly due to the receipt of government subsidies.

Selling and marketing expenses

During the Reporting Period, the Group's selling and marketing expenses amounted to approximately RMB5.3 million, representing a decrease of 15.1% as compared to approximately RMB6.2 million for the corresponding period in 2022. The decrease was mainly due to the implementation of sound cost control measures by the Group.

Administrative expenses

During the Reporting Period, the Group's administrative expenses amounted to approximately RMB29.1 million, representing an increase of 28.1% as compared to approximately RMB22.7 million for the corresponding period in 2022, mainly due to the increase in management fees caused by independent investigations and other resumption works.

Income tax expenses

During the Reporting Period, the Group's income tax expenses amounted to approximately RMB15.4 million, representing an increase of 19.8% as compared to approximately RMB12.9 million for the corresponding period in 2022. The increase in income tax expenses was mainly due to the increase of profit before tax.

Profit for the period

During the Reporting Period, the Group's profit amounted to approximately RMB59.5 million, representing an increase of 4.9% as compared to that of approximately RMB56.7 million for the corresponding period in 2022. Net profit margin was 13.4%, representing a decrease of 1.8% from 15.2% for the corresponding period in 2022. Profit for the Reporting Period attributable to owners of the Company was approximately RMB50.9 million, representing an increase of 2.8% as compared to that of approximately RMB49.5 million for the corresponding period in 2022.

Liquidity, reserves and capital structure

The Group maintained a stable financial position and the Group has sufficient capital during the Reporting Period. As at June 30, 2023, the current assets amounted to approximately RMB1,099.8 million, representing an increase of approximately 9.6% as compared to that of approximately RMB1,003.0 million for 2022. The Group's cash and cash equivalents were mostly denominated in RMB and amounted to RMB372.7 million, representing a slightly increase from RMB345.9 million as at December 31, 2022. The Group's current ratio (current assets divided by current liabilities) as at June 30, 2023 was 2.5, representing a slightly decrease from approximately 2.6 as at December 31, 2022. The asset-liability ratio (total liabilities divided by total assets) as at June 30, 2022 was 35.8%, representing a slightly increase from 35.3% as at December 31, 2022.

Gearing ratio is total borrowings divided by total equity. It is calculated as the sum of long-term and short-term interest-bearing bank loans and other loans as at the corresponding dates divided by total equity as at the same dates. As of June 30, 2023, the Group did not have any bank loans and other loans and the gearing ratio was nil (December 31, 2022: nil).

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

Trade and other receivables

As at June 30, 2023, trade and other receivables amounted to RMB698.7 million, representing an increase of 16.7% from RMB598.9 million as at December 31, 2022, which was mainly attributable to the decrease in the collection rate of the Group's receivables due to the objective economic impact.

Trade and other payables

As at June 30, 2023, trade and other payables amounted to approximately RMB266.7 million, representing the slight decrease from approximately RMB279.8 million as of December 31, 2022.

FOREIGN EXCHANGE RISK

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

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended June 30, 2023.

PLEDGE OF ASSETS

As of June 30, 2023, the Group has provided the following guarantees:

1. The Group completed the acquisition of 51% of the equity interests in Dingfeng Property in October 2021 (the “**Dingfeng Acquisition**”). Unbeknownst to the Group at the time of the Dingfeng Acquisition, Dingfeng Property had entered into the Dingfeng-Yuanxuan Guarantee, jointly guaranteeing with other guarantors certain cash payment obligation and the performance of the redemption obligation of Henan Ruipeng Biotechnology Co., Ltd. (河南瑞鵬生物科技有限公司) (“**Henan Ruipeng**”) and Guan Xiaoyan (關曉彥), which arose from certain investment agreements between Henan Ruipeng, Guan Xiaoyan (關曉彥) and Tibet Yuteng Enterprise Management Co., Ltd. (西藏裕騰企業管理有限公司) (“**Tibet Yuteng**”), among other parties (the “**Investment Agreements**”). Due to the non-performance of the obligations by Henan Ruipeng, upon the application by Tibet Yuteng, the Zhengzhou Intermediate People's Court issued a freezing order on August 8, 2022 against the relevant guarantors including Dingfeng Property, freezing each guarantor's bank deposit for up to RMB186,224,556.

On January 9, 2023, Tibet Yuteng reached a settlement agreement with certain parties under the Investment Agreements. It should be noted that Dingfeng Property was not named as a party to the settlement agreement. On January 16, 2023, Tibet Yuteng voluntarily withdrew its claim against Dingfeng Property. On January 31, 2023, the freezing order on the Frozen Bank Account has been lifted.

2. In May 2020, Dingfeng Property has provided a guarantee (the “**Dingfeng-Pingdingshan Guarantee**”) for the loan repayment obligation of Pingdingshan Yufu Trading Co., Ltd. (平頂山市裕富商貿有限公司) (“**Yufu Trading**”), in favour of Henan Wugang Rural Commercial Bank Co., Ltd. (河南舞鋼農村商業銀行股份有限公司) (“**Wugang Rural Commercial Bank**”). The loan amount was RMB30,000,000. The loan was also secured by third parties' pledging of assets valued at around RMB18,000,000. As a measure to shield the Group against any loss as a result of the Dingfeng-Pingdingshan Guarantee, under the agreement for the Dingfeng Acquisition, the Group would be entitled to acquire at no additional cost the remaining 49% equity interest in Dingfeng Property to cover any losses as a result the Dingfeng-Pingdingshan Guarantee. Due to the default of Yufu Trading, the bank accounts of Dingfeng Property were frozen by the court on February 9, 2023. Up to August 23, 2023, the frozen bank deposits of approximately RMB12.5 million was enforced.

The ECL associated with the Dingfeng-Yuanxuan Guarantee and the Dingfeng-Pingdingshan Guarantee for the year ended June 30, 2023 is RMB276,000 and nil, respectively.

CONTINGENT LIABILITIES

As of June 30, 2023, the Group did not have any material contingent liabilities and capital commitments.

MATERIAL ACQUISITIONS AND DISPOSALS

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

On September 30, 2021, the Group, Xi'an Lifeng Property Management Co., Ltd. (西安立豐物業管理有限公司) (“**Xi'an Lifeng Property**”), the then existing shareholders of Xi'an Lifeng Property and Yan Ming (the ultimate beneficial owner of Xi'an Lifeng Property, as the guarantor) entered into an investment agreement, pursuant to which the Group agreed to acquire 80% of the equity interest in Xi'an Lifeng Property by equity transfer from its existing shareholders (the “**Investment**”). The total consideration for the Investment is RMB164.07 million. As of June 30, 2023, the amount of the Investment paid by the Group was approximately RMB65.6 million. Upon completion of the Investment, Xi'an Lifeng Property will become a subsidiary of the Group. The Investment constituted

a discloseable transaction of the Company under Chapter 14 of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). For details of the Investment, please refer to the announcements of the Company dated September 30, 2021 and November 12, 2021, respectively.

Save as disclosed above, there are no other major investments, material acquisitions or disposals of subsidiaries, associates and joint ventures held as at June 30, 2023, nor are there any plans for other significant investments or additions to capital assets as authorized by the Board.

SIGNIFICANT INVESTMENTS

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

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group intends to utilize part of the net proceeds raised from the global offering to acquire property management companies and professional service companies, and to cooperate with local municipal investment companies or local property developers through capital injection or forming joint ventures according to the Prospectus. As at the date of this announcement, the Group did not have any other future plans for material investments.

EMPLOYEE AND REMUNERATION POLICY

As of June 30, 2023, the Group had a total of 1,965 employees (June 30, 2022: 1,720). The Group’s employee benefit expenses (including Director’s emoluments) amounted to RMB95.9 million for the six months ended June 30, 2023 (six months ended June 30, 2022: RMB80.6 million).

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

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

Proceeds from the global offering are and will continue to be applied in accordance with the plans disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus. The following table sets forth the status of use of net proceeds from the global offering as of June 30, 2023:

Purposes	Percentage of total amount (approximate)	Net proceeds as disclosed in the Prospectus (HK\$ million)	Unutilised amount as at December 31, 2022 (HK\$ million)	Actual use of proceeds for the Reporting Period (HK\$ million)	Unutilised amount as at June 30, 2023 (HK\$ million)	Expected timeline for the use of proceeds
Pursue selective strategic investment and acquisition opportunities to further develop strategic cooperation and expand our business scale	65%	408.8	322.9	0	322.9	By December 2024
Invest in our intelligent operational and internal management systems to improve service quality and customer experience	10%	62.9	48.4	2.2	46.2	By December 2024
Enrich and expand our service and product offerings to develop our diverse business line	15%	94.3	12.6	12.0	0.6	By December 2024
Working capital and other general corporate purposes	10%	62.9	2.1	0	2.1	By December 2023
Total	100%	628.9	386.0	14.2	371.8	

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

MATERIAL EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in this announcement, there has been no subsequent event from June 30, 2023 to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules as its code of governance. During the Reporting Period, save for the code provisions of the CG Code disclosed below, the Company has complied with all applicable principles and code provisions under the CG Code.

Under Code Provision D.1.2 of the CG Code, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer’s performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

From January 2023 to March 2023, while the Company has a monthly reporting system with updates on overall monthly performance and operations, the monthly reports did not include information on the provision of guarantee to external parties, material litigations and contingent liabilities.

As stated in the Annual Report for the year ended December 31, 2022 (the “2022 Annual Report”), published on August 11, 2023, as a rectification measure, the management of each subsidiary of the Company shall submit to the Board monthly reports on the performance and operations of each subsidiary of the Company, covering areas including but not limited to the provision of guarantees and security, litigations and contingent liabilities. The Board shall review and provided feedback to the management of each subsidiary of the company.

Under Code Provision D.2.1 of the CG Code, the board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and their subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls. As stated in the 2022 Annual Report, the Independent Investigator and IC Consultant have identified the weaknesses in the Group's internal control during its review. As of the date of this announcement, the Company has adopted all the recommendations from the IC Consultant. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code for dealing in the securities of the Group by the Directors. After specific enquiries made to all Directors, each of the Directors have confirmed their compliance with the required standard set out in the Model Code during the Reporting Period.

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

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited interim condensed consolidated results of the Group for the six months ended June 30, 2023 together with the Board, and confirmed that it has complied all applicable accounting principles, standards and requirements, and made sufficient disclosures.

PUBLICATION OF INTERIM RESULTS AND 2023 INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.kqysh.com.cn). The interim report of the Company for the six months ended June 30, 2023 will be dispatched to the Shareholders and published on the above websites in due course.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on April 3, 2023 and will continue to be suspended, pending the fulfilment of the resumption guidance and the grant of approval of the Stock Exchange for the resumption of trading of the shares of the Company.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

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

Hong Kong, August 31, 2023

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