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KWG Living Group Holdings Limited

合景悠活集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3913)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

SUMMARY OF INTERIM RESULTS

- Revenue for the six months ended 30 June 2022 amounted to approximately RMB2,064.3 million, representing an increase of 68.0% as compared with the corresponding period in 2021.
- Gross profit for the six months ended 30 June 2022 amounted to approximately RMB622.1 million, representing an increase of 14.5% as compared with the corresponding period in 2021.
- Profit for the six months ended 30 June 2022 amounted to approximately RMB329.6 million, representing a slight increase of 3.4% as compared with the corresponding period in 2021.
- As at 30 June 2022, the aggregate GFA under management and the aggregated contracted GFA amounted to approximately 214.2 million sq.m., and 285.8 million sq.m. respectively, representing an increase of 29.7% and 28.9% respectively as compared with corresponding period in 2021.

The board (the “**Board**”) of directors (the “**Directors**”) of KWG Living Group Holdings Limited (the “**Company**” or “**we**”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022, together with the corresponding comparative figures for the six months ended 30 June 2021. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2022 (the “**Interim Financial Information**”) has been reviewed by the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	2,064,331	1,228,554
Cost of sales		<u>(1,442,265)</u>	<u>(685,111)</u>
Gross profit		622,066	543,443
Other income and gains	5	37,258	8,782
Selling and distribution expenses		(978)	(862)
Administrative expenses		(232,627)	(143,094)
Other expenses, net		(10,357)	(2,889)
Finance costs		(1,443)	(105)
Share of profit of:			
An joint venture		392	—
An associate		<u>1,345</u>	<u>1,349</u>
PROFIT BEFORE TAX	6	415,656	406,624
Income tax expense	7	<u>(86,024)</u>	<u>(87,741)</u>
PROFIT FOR THE PERIOD		<u>329,632</u>	<u>318,883</u>
Attributable to:			
Owners of the parent		313,873	315,198
Non-controlling interests		<u>15,759</u>	<u>3,685</u>
		<u>329,632</u>	<u>318,883</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic (expressed in RMB cents per share)	8	16	16
Diluted (expressed in RMB cents per share)	8	<u>16</u>	<u>16</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>329,632</u>	<u>318,883</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(95,132)</u>	<u>1,899</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company	<u>103,496</u>	<u>(27,850)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>8,364</u>	<u>(25,951)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>337,996</u>	<u>292,932</u>
Attributable to:		
Owners of the parent	<u>322,237</u>	289,247
Non-controlling interests	<u>15,759</u>	<u>3,685</u>
	<u>337,996</u>	<u>292,932</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	30 June	31 December
	2022	2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	90,644	8,762
Investment properties	6,300	—
Right-of-use assets	10,948	7,363
Goodwill	1,877,214	699,775
Other intangible assets	654,124	223,353
Investment in a joint venture	2,006	1,614
Investment in an associate	11,248	9,903
Deferred tax assets	29,124	18,873
Other financial asset	—	16,500
Prepayment for acquisition of subsidiaries	—	1,316,000
	<u>2,681,608</u>	<u>2,302,143</u>
CURRENT ASSETS		
Trade receivables	9 1,467,625	1,062,032
Prepayments, other receivables and other assets	1,849,301	397,109
Restricted cash	6,014	7,189
Cash and cash equivalents	1,520,133	1,233,598
	<u>4,843,073</u>	<u>2,699,928</u>
CURRENT LIABILITIES		
Trade payables	10 415,998	245,830
Other payables and accruals	1,682,394	857,583
Contract liabilities	4 251,608	101,967
Lease liabilities	5,198	6,137
Dividend payable	11 247,613	5,560
Interest-bearing bank and other borrowings	156,723	—
Tax payable	313,223	213,466
	<u>3,072,757</u>	<u>1,430,543</u>
NET CURRENT ASSETS	<u>1,770,316</u>	<u>1,269,385</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,451,924</u>	<u>3,571,528</u>

	As at	
	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	5,269	1,393
Interest-bearing bank and other borrowings	506,992	—
Deferred tax liabilities	161,910	54,249
	<u>674,171</u>	<u>55,642</u>
Total non-current liabilities	<u>674,171</u>	<u>55,642</u>
Net assets	<u>3,777,753</u>	<u>3,515,886</u>
EQUITY		
Share capital	17,493	17,493
Reserves	3,531,267	3,449,015
	<u>3,548,760</u>	<u>3,466,508</u>
Equity attributable to owners of the parent	<u>3,548,760</u>	<u>3,466,508</u>
Non-controlling interests	228,993	49,378
	<u>3,777,753</u>	<u>3,515,886</u>
Total equity	<u>3,777,753</u>	<u>3,515,886</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 11 September 2019. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the six months ended 30 June 2022, the Group was involved in the provision of residential property management services and non-residential property management and commercial operational services in the People's Republic of China (the "PRC").

In the opinion of the Directors, the immediate and ultimate holding company of the Company was Plus Earn Consultants Limited, which was incorporated in the British Virgin Islands ("BVI").

2.1 BASIS OF PRESENTATION

The Interim Financial Information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting*.

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, HKASs and Interpretations).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised HKFRSs for the first time for the Interim Financial Information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The adoption of the above revised HKFRSs has had no significant financial effect on the Group's Interim Financial Information.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two reportable operating segments as follows:

- (a) Residential property management services; and
- (b) Non-residential property management and commercial operational services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

The revenue from external customers reported to management is measured as segment revenue, which is the revenue derived from the customers in each segment.

No analysis of segment assets and segment liabilities is presented as this information is not regularly provided to the management for review.

The following is an analysis of the Group's revenue and results by operating and reportable segment:

Six months ended 30 June 2022

	Residential property management services RMB'000 (Unaudited)	Non-residential property management and commercial operational services RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue	1,033,662	1,030,669	2,064,331
Segment result	290,065	204,035	494,100
<i>Reconciliation:</i>			
Interest income and unallocated income			37,258
Unallocated expenses			(114,259)
Finance costs			(1,443)
Profit before tax			415,656
Income tax expense			(86,024)
Profit for the period			<u>329,632</u>

Six months ended 30 June 2021

	Residential property management services <i>RMB'000</i> (Unaudited)	Non-residential property management and commercial operational services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue	844,662	383,892	1,228,554
Segment result	321,277	134,363	455,640
<i>Reconciliation:</i>			
Interest income and unallocated income			8,782
Unallocated expenses			(57,693)
Finance costs			(105)
Profit before tax			406,624
Income tax expense			(87,741)
Profit for the period			<u>318,883</u>

Geographical information

The Group's revenue from customers is derived solely from its operations and services rendered in the PRC, and the non-current assets of the Group are located in the PRC.

Information about major customers

For the six months ended 30 June 2022 and 2021, approximately RMB469,417,000 and RMB620,753,000 of revenue were derived from KWG Group Holdings Limited and its subsidiaries and its joint ventures, associates and other related parties, respectively.

4. REVENUE AND CONTRACT LIABILITIES

Revenue comprised proceeds from residential property management services and non-residential property management and commercial operational services for the six months ended 30 June 2022 and 2021. An analysis of revenue is as follows:

Revenue from contracts with customers

(a) Disaggregated revenue information

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Types of services by segment:		
<i>Residential property management services</i>		
Pre-sale management services	134,361	177,841
Property management services	707,705	344,508
Community value-added services	<u>191,596</u>	<u>322,313</u>
	<u>1,033,662</u>	<u>844,662</u>
 <i>Non-residential property management and commercial operational services</i>		
Pre-sale management services	18,144	11,226
Property management services	906,621	287,974
Commercial operational services	61,186	55,181
Other value-added services	<u>44,718</u>	<u>29,511</u>
	<u>1,030,669</u>	<u>383,892</u>
 Total revenue from contracts with customers	 <u><u>2,064,331</u></u>	 <u><u>1,228,554</u></u>
 Timing of revenue recognition		
Revenue from contracts with customers recognised over time	1,828,017	876,730
Revenue from contracts with customers recognised at a point in time	<u>236,314</u>	<u>351,824</u>
	<u><u>2,064,331</u></u>	<u><u>1,228,554</u></u>

Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at	
	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
Third parties	248,994	100,175
Related parties	2,614	1,792
	<u>251,608</u>	<u>101,967</u>

Contract liabilities of the Group mainly arise from the advance payments received from customers for services yet to be provided.

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

For residential property management services and non-residential property management and commercial operational services, the Group recognised revenue in the amount that equals to the rights to invoices which corresponds directly with the value to the customers of the Group's performance to date. The Group has elected the practical expedient for not to disclose the remaining performance obligations for these types of contracts because the performance obligation is part of a contract that has an original expected duration of one year or less, and there was unsatisfied performance obligation at the end of the respective periods.

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Bank interest income	4,338	4,264
Government grants	14,259	791
Gain on disposal of property, plant and equipment, net	94	25
Late penalty income	2,588	1,144
Tax incentives on value-added tax	10,128	1,979
Others	5,851	579
	<u>37,258</u>	<u>8,782</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of services provided	1,442,265	685,111
Depreciation of property, plant and equipment	9,895	2,100
Depreciation of right-of-use assets	4,266	2,103
Amortisation of other intangible assets	40,718	13,402
Gain on disposal of property, plant and equipment, net	<u>(94)</u>	<u>(25)</u>
Employee benefit expense (excluding directors' and chief executive's remuneration)		
Wages and salaries	744,147	405,350
Share-based compensation expenses	1,012	—
Pension scheme contributions	<u>76,842</u>	<u>34,089</u>
	<u>822,001</u>	<u>439,439</u>
Net impairment losses recognised/(reversed) on financial assets:		
Trade receivables	12,740	1,907
Other receivables	<u>(5,985)</u>	<u>—</u>

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and the BVI, the entities within the Group incorporated in the Cayman Islands and the BVI are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2022.

The income tax provision of the Group's subsidiaries established in the PRC in respect of its operation in the PRC was calculated at the tax rate of 25% on their assessable profits for the six months ended 30 June 2022, if applicable, based on the existing legislation, interpretations and practice in respect thereof. Certain subsidiaries of the Group operating in the PRC enjoyed a preferential corporate income tax rate of 15% during the six months ended 30 June 2022.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current	95,065	102,314
Deferred	<u>(9,041)</u>	<u>(14,573)</u>
	<u>86,024</u>	<u>87,741</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic and diluted earnings per share amount for the six months ended 30 June 2022, is based on the profit for the six months ended 30 June 2022 attributable to owners of the parent of approximately RMB313,873,000 (six months ended 30 June 2021: approximately RMB315,198,000), and the weighted average number of shares of 2,017,110,233 (six months ended 30 June 2021: 2,017,810,233) in issue during the six months ended 30 June 2022.

9. TRADE RECEIVABLES

	As at	
	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
Related parties	816,600	540,336
Third parties	<u>681,225</u>	<u>539,156</u>
	1,497,825	1,079,492
Less: Allowance for impairment of trade receivables	<u>(30,200)</u>	<u>(17,460)</u>
	<u><u>1,467,625</u></u>	<u><u>1,062,032</u></u>

An ageing analysis of the trade receivable as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	As at	
	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
Within 1 year	1,388,300	1,028,083
1 to 2 years	58,237	20,612
2 to 3 years	15,929	12,249
Over 3 years	<u>5,159</u>	<u>1,088</u>
	<u><u>1,467,625</u></u>	<u><u>1,062,032</u></u>

10. TRADE PAYABLES

	As at	
	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
Related parties	8,600	9,689
Third parties	<u>407,398</u>	<u>236,141</u>
	<u>415,998</u>	<u>245,830</u>

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at	
	30 June 2022 <i>RMB'000</i> (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
Within 1 year	364,625	229,947
1 to 2 years	38,785	11,038
2 to 3 years	8,821	1,891
Over 3 years	<u>3,767</u>	<u>2,954</u>
	<u>415,998</u>	<u>245,830</u>

11. DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

CHAIRMAN'S STATEMENT

Dear Shareholders,

With heartfelt thanks for your continuous support to the development of the Group. I am pleased to present the interim results of the Group for the six months ended 30 June 2022.

In the first half of 2022, the COVID-19 pandemic continued to resurge globally, making the international environment become more and more complicated and severe, and the global economy struggled to recover amidst risk and challenge. Among them, China's normalised pandemic prevention and control measures were leading the world with its economic development showing stronger resilience. In facing the resurgence of the COVID-19 pandemic across the country, property management enterprises adhered to their undertakings and built a solid line of defence in the pandemic front line for the life and property security of property owners and customers and was highly praised by all walks of life.

Under the unfavourable situation of tremendous uncertainties in the macro environment and the continuous resurgence of the COVID-19 pandemic, the Group overcame difficulties and made bold innovations, solved difficulties in the recruitment and employment of labours in the areas locked down and with frequent reoccurrence of the pandemic, actively assisted customers and local governments in resuming work and production. Meanwhile, the Group continuously carried out quality upgrading, business models innovation and technology empowerment to ensure quality and steady growth of business. During the six months ended 30 June 2022, the Group's revenue grew by 68.0% compared to the same period of 2021 to approximately RMB2,064.3 million. At the same time, with the increasingly improved management efficiency, the Group achieved gross profit, net profit and earnings per share attributable to shareholders of approximately RMB622.1 million, RMB329.6 million and RMB0.16 respectively. While achieving a steady growth, the Company maintained a balanced revenue structure and a high-quality profit structure. The proportion of revenue from residential properties and non-residential properties was 50:50.

Facing the increasingly intensified market competition, the Group firmly adhered to its growth strategies; continuously enhanced the capability in obtaining projects through the brand system of "one product with multi-brands", the integrated and multi-scenario service capability and the increasingly mature partnership and channels; and constantly expand with market-based development. Currently, the Group has presence in 147 cities across 22 provinces, autonomous regions and municipalities. The Group's gross floor area (the "GFA") under management and the contracted GFA was 214.2 million square metres ("sq.m.") and 285.8 million sq.m., respectively. The GFA under management of third-party projects reached 189.0 million sq.m., accounting for 88.2% of the GFA under management, which further improved our independence and brand influence.

1. Actively performing social responsibilities of corporate citizens and strictly holding the last line of defence for pandemic prevention

The Group pays continuous attention to environmental, social responsibilities and corporate governance, escalates environmental, social and governance (“ESG”) matters as important prominence in corporate governance and deeply integrates the concept of long-termism into corporate management to effectively improve comprehensive corporate governance. During the six months ended 30 June 2022, the first standalone Environmental, Social and Governance Report of the Group after its listing was published in May 2022. It was awarded the “2022 Outstanding Property Service Enterprise in ESG Development in China”, the “2022 Annual Property Service Enterprise with Sense of Social Responsibility in China”, the “Green Leadership Prize” and the “Corporate Governance Prize” under the Prize for Asian Enterprises with Social Responsibility in 2022 as well as other honours, marking a new step in social governance, environmental protection, social responsibility and staff care.

With the scattered and frequent resurgence of the pandemic in 2022, employees of the Group held their positions and pooled their forces to bring light to customers in the face of the pandemic. Facing the sudden outbreak of the pandemic in Shanghai, the Group, as one of the first property enterprises initiating the epidemic prevention mechanism, immediately initiated the top-level emergency plan and established the group-city-project 3-tier response mechanism to safeguard the life, health and safety of property owners, employees and customers. During the fight against the pandemic in Shanghai and as one of the service providers for mobile cabin hospitals, Shanghai Shenqin Property Management Service Co., Ltd. (“**Shenqin Property**”), a subsidiary of the Group, immediately dispatched employees to work in mobile cabin hospitals on a long-term basis and assisted in maintaining and assuring the normal operation of government authorities. It also actively prepared labours and provisions during the lockdown period and assisted enterprises and public institutions in resuming works and production. It spent 1,920 hours on safeguarding the homeland.

With the restart of life in various regions in the post-COVID-19 era, the lifting of lockdown never imply abolishing the prevention and control measures. The Group gradually normalised the emergency epidemic prevention in communities, summarised the management experience during the special period and devoted to serving customers with extremely high service willingness and loyalty as well as rapid organisation and response capabilities. During the hard times of fighting against the pandemic, the Group innovated various heart-warming, considerate and surprising services, such as vegetable delivery, collective hair-cutting and care for the elderly living alone. As a result, it obtained customer trust and maintained the resilience of property services.

2. Staying true to original aspirations, focusing on the improvement of capabilities, refining quality and enhancing the middle-end to improve efficiency and quality

Despite the ever-changing external environment, our original aspirations on improving capabilities remained unchanged. In facing the continuous upgrading of customer demands, the Group stood by the lifeline of service quality, developed standardised service systems, finetuned service contents and promoted models for standard capabilities of employees. It adhered to the concept of offering appropriate services and firmly controlled the dimension, potency, width and professionalism. Meanwhile, the Group also implemented special actions, such as building benchmark projects and quality improvement action to ensure the yearly operating plans are facilitated and implemented with rhythm and focus.

Brand reputation is the core factor for customers in selecting us. During the six months ended 30 June 2022, the Xiangyang High and New Technology Incubation Park of Guangzhou Runtong Property Management Company Limited, a subsidiary of the Group, was honoured as a “demonstration project in property management” by the local housing and urban-rural development bureau. Shenqin Property, a subsidiary of the Group, also has various outstanding projects at the municipal and district levels in Shanghai. Guangdong Telijie Environment Engineering Co., Ltd. (“**Telijie**”), a subsidiary of the Group, also has various projects awarded as outstanding maintenance projects by the Guangdong Landscape Architecture and Ecological Landscape Association. At the same time, the Group also strives to become founders and members of more professional associations and participate in the formulation of industrial standards, devoting contributions and jointly promote the progress of the industry.

On such basis, the Group insists on digital and intelligent business transformation to achieve refined operation. The Group strictly holds the bottom line with dynamic budget management and risk management systems. We connect different ports with a unified platform to reduce the cost of information flow; develop the soft power of the platform by integrating business and finance segments in order to promote corporate efficiency improvement and empower member enterprises; provide services with sincerity so as to receive high satisfaction and improve the efficiency and quality through a strong middle-end to improve the competitiveness of the Group in the long run.

3. Maintaining independent, high-quality and balanced development and achieving multiple growth of scalable business types

Under the market environment with intensified competition, increasing rigid costs and weakening certainties, the Group pursues independent, high-quality and balanced development instead of mere scalable move. Benefiting from its nationwide layout and the balanced deployment of residence, commercial properties, public facilities and urban services, the Group fully tapped and rapidly iterated its endowments and gradually emancipated its potentials.

During the six months ended 30 June 2022, the Group acquired Telijie and expanded its service offerings to urban services. Leveraging the brand empowerment, capital support and upgraded management of the Group, Telijie further displayed its outstanding qualifications and professional management experience in the urban service industry and developed into a nationwide brand from a traditional one in Guangdong. It successfully entered the urban service markets in South-western and Central China in the first half of 2022 and completed business duplication outside Guangdong. Meanwhile, Telijie also fully responded to the “carbon peaking and carbon neutrality” targets of the government, invested high-standard new energy sprinklers to develop benchmark urban projects. It also horizontally expanded the chains of waste handling covering household garbage and accumulated garbage to get prepared for entering the new “green” era.

During the industrial consolidation, the Group firmly seized the historical opportunities with the release of more business types and projects and maintained the independent and market-based development path. During the six months ended 30 June 2022, the Group followed the market trends, upgraded and optimised the structure of the Group, connected the front-end, middle-end and back-end platforms and pooled the management, operation and expansion capabilities together to fully serve and support business development. In building the market expansion teams, the headquarters empowered training and resources, conducted collaboration and sharing and cultivated the culture of mentorship with the focus on improving the per capita expansion efficiency. During the six months ended 30 June 2022, the Group continued to expand its presence and developed a total of 334 projects and the expanded business types covering residence, commercial properties, public facilities and urban services. The endogenous power injected vitality and vibrancy to enterprise development.

Stable and balanced growth also depends on the synergy of member enterprises. The Group pooled the geographical advantages, professional licences and resources of all member enterprises together, shared market resources and carried out synergistic expansion to achieve powerful combination. Year 2022 marks a year of integration to make pragmatic advancement in post-acquisition management and integrate one product with multi-brands. The Group will further specify the brand advantages and positioning of member enterprises, upgrade the linkage mechanism and achieve the enhancement of professional barriers and the comprehensive improvement of the market-based capability.

4. Focusing on commercial properties and operation in core areas and displaying differentiated skills

In the first half of 2022, China's domestic pandemic showed multipoint dispersion and has spread to a majority of provinces, impeding the consumer market operation sentiment nationwide. With the national situation on pandemic prevention and control improved, the impact of promoting consumption showed up and consumer market sped up its recovery. The Group has made various working arrangements since the pandemic outbreak. Both the sales volume and customer flow rapidly recovered correspondingly since the pandemic was stabilised in June 2022.

In response to uncertainties brought about by the pandemic on consumption, the Group also adhered to digital transformation in the commercial segment, built a digital and intelligent marketing platform, provided online and offline technical services and online operation services through all channels and assisted tenants in breaking online and offline space barriers, so as to help various brands to build exclusive traffic systems in the future, achieve interactions and meet different demands of brands at different stages. At the same time, the Group also fully empowered the brand level and linked commercial projects across the country through digital marketing to conduct themed marketing campaigns, stimulate the circle and achieve sales conversion.

For instance, Guangzhou Knowledge City U Fun was put into operation on 29 April 2022. As a strategic high ground in the "eastward development of Guangzhou", Guangzhou Zhongxin Knowledge City's high-end planning attracts top notch industries and talents, targeting a 600,000 population. Guangzhou Knowledge City U Fun is also the first commercial project of over 100,000 sq.m. in area in the Knowledge City, which is also a new sample of the Group in building an "enjoyable and funny" commercial circle in eastern Guangzhou. The project conveys our new proposal on the lifestyle in new urban areas: devoted to pursuing quality life, daring to try new things, paying attention to the compatibility of social contact space and quality gathering spot and achieving differentiated operation with interactions with customers and interesting experience.

Unlike residence and public facilities and other sectors featuring high growth characteristics, the operation and management of office buildings demonstrates a strong anti-periodic nature. The Group has been focusing on and exploring opportunities in this sector with over two decades of development and devotion to provide full lifecycle asset maintenance and full chain solutions to extend the life of customers' assets, reduce asset depreciation and operating expenses and preserve and enhance the asset value for customers.

5. Future outlook

With the continuous increase in GFA under management by the Group and the constant expansion of service scope, in facing the complicated market environment, we have all along been thinking of how to meet the ever-growing service and cultural demands, how to seek opportunities for sustainable growth in industrial chains and how to seize opportunities of the times to achieve industrial upgrading and high-quality development.

Year 2022 marks a year of marketisation for the Group to advance from being an all business format player towards an all ecosystem player. The Group will focus on building a strong market expansion team, fully empower from the Group level and formulate standards and strategies on business expansion. We will establish expert teams and supporting teams on market expansion, match flexible expansion mechanisms, gather member enterprises and ecological partners in all dimensions, extend advantageous businesses horizontally and connect the Group, regions and projects vertically to break through the original geographic, scale and industrial boundaries.

Year 2022 marks a year of smart digitalisation in optimising value chains. The Group will unswervingly implement strategies on smart digitalisation, put customers first and be service-oriented. We will leverage new technologies to upgrade and reshape services and provide property owners with better and more refined services. With digital economy as the main line of long-term development in the future, the Group will achieve breakthroughs in physical space and time to develop new economic growth points. We will adopt a scientific labour mechanism to match service procedures, advance the front end to get closer to property owners and move the back end more backward to make it more intensive to improve both quality and efficiency.

BUSINESS REVIEW

Overview

We are a comprehensive smart service operator in China with sound reputation and rapid development. In the first half of 2022, leveraging on the rapid growing operational scale, the huge growth potential and the outstanding market performance, we were awarded the “2022 TOP 20 Listed Company of China Property Management Service”, the “2022 Top 5 Leading Listed Company of Property Management Service in Development Speed”, the “2022 Top 5 Leading Listed Company of Property Management Service in Development Potential” and other honours by Shanghai E-house Real Estate Research Institute and CRIC Property Management (克而瑞物管).

We consider sustainable development as a key development strategy. While achieving the rapid and high-quality economic development, we also contribute to environmental protection and the development of green property management, undertake social responsibilities and fulfill the undertakings of large enterprises. With our sustainable development concept, outstanding leadership and high sense of social responsibility, we were awarded the “2022 Outstanding Property Service Enterprise in ESG Development in China”, the “2022 Annual Property Service Enterprise with Sense of Social Responsibility in China”, the “Green Leadership Prize” and the “Corporate Governance Prize” under the Prize for Asian Enterprises with Social Responsibility in 2022 as well as other honours.

As at 30 June 2022, the Group provided property management services and value-added services in 147 cities in China, with a contracted GFA of approximately 285.8 million sq.m. and GFA under management of approximately 214.2 million sq.m.. The Group’s services cover a variety of properties, including residential properties and non-residential properties (such as office buildings, shopping malls, schools, government authorities, hospitals and urban services), commercial operational services and related value-added services.

Upholding the philosophy of “Enjoy Life Everywhere”, we strive to provide an all-round and attentive professional property management services to our customers, and develop product and service systems that cater for different customer portfolio and different segments. In connection with the residential property projects, we forge three major product systems, namely “Zhen Service (臻享)”, “Jun Service (駿享)” and “Ning Service (寧享)”, to provide customers with a more secured, comfortable and assured experience in residential property management service. For commercial operational projects, we focus our efforts on establishing our shopping mall brand system mainly based on the brand names of “Ufun”, “M • CUBE” and “Ufun Walk”, and our office building brand system with “ifp”, “imp” and “icp” as the signature brands at the prime locations in first-tier and second-tier cities.

Business Introduction

Business Model

The Group generates revenue primarily from two principal business segments: (i) residential property management services; and (ii) non-residential property management and commercial operational services.

Residential property management services

The Group provides residential property management services to afford various services meeting the needs of households and residents in the community under different daily-living scenarios, including:

- pre-sale management services such as cleaning, security and maintenance services for pre-sale display units and sales offices, to property developers during their pre-sale activities. The Group charges a fixed service fee for such services;
- property management services such as cleaning, security, gardening and repair and maintenance services to (i) property developers for undelivered portion of the properties; and (ii) property owners, property owners' associations or residents for properties sold and delivered. The Group collects property management fees for such services; and
- community value-added services such as (i) home-living services — the provision of a wide range of services catered to the personalized needs of owners through the integration of industrial and ecological resources; (ii) property agency services — property agency services provided to property owners, residents and property developers; and (iii) common area value-added services — aiming to provide daily-living convenience to property owners and residents and enhance the owners' sense of pleasant accommodation by utilising the community space. The Group typically charges a commission-based fee or a fixed fee depending on the nature of services rendered.

Non-residential property management and commercial operational services

The Group manages and operates a diversified portfolio of non-residential properties, provides property management and commercial operational services to commercial properties such as shopping malls, office buildings and industrial parks, and provides property management services to schools, hospitals, government authorities and other public properties. The Group's services include:

- pre-sale management services such as cleaning, security and maintenance services for pre-sale display units and sales offices to property developers. The Group charges a fixed service fee for such services;

- property management services such as file management, cleaning, security, gardening and repair and maintenance services provided to property owners or tenants. The Group charges property management fees for such services;
- commercial operational services such as preliminary planning and consultancy services, tenancy sourcing services, tenancy management services and marketing and promotion services to property owners and property developers. The Group typically charges (i) a commission-based fee with respect to the operation of shopping malls; (ii) a profit mark-up on top of the costs with respect to the operation of office buildings; and (iii) a fixed service fee on a per sq.m basis for its preliminary planning and consultancy services and tenancy sourcing services; and
- other value-added services such as primarily common area value-added services. The Group typically charges a commission-based fee or a fixed fee depending on the nature of services rendered.

The table below sets forth the breakdown of the Group's total revenue by business segment for the periods indicated:

	Six months ended 30 June			
	2022		2021	
	RMB'000	%	RMB'000	%
Residential property management services				
Pre-sale management services	134,361	6.5	177,841	14.5
Property management services	707,705	34.3	344,508	28.1
Community value-added services	191,596	9.3	322,313	26.2
Sub-total	1,033,662	50.1	844,662	68.8
Non-residential property management and commercial operational services				
Pre-sale management services	18,144	0.9	11,226	0.9
Property management services	906,621	43.9	287,974	23.4
Commercial operational services	61,186	3.0	55,181	4.5
Other value-added services	44,718	2.1	29,511	2.4
Sub-total	1,030,669	49.9	383,892	31.2
Total	2,064,331	100.0	1,228,554	100.0

Residential Property Management Services

Overview

The Group adheres to the strategy of market-oriented and independent operation and firmly believes that outstanding quality is the key to the success of the Group. Focusing on key subjects such as quality and service during the year, the Group highlighted customer experience, efficiency improvement in operation and other aspects, carried out the construction of benchmark projects in full business and intensified quality inspections. It also enhanced trainings on professional skills and service capabilities of employees and improved digital empowerment to consolidate its service capabilities. During the six months ended 30 June 2022, its revenue from the residential property management service segment increased to approximately RMB1,033.7 million from approximately RMB844.7 million over the same period of last year, representing a year-on-year increase of 22.4%. The ongoing improvement of marketisation capability has injected strong impetus for the robust growth in the Group's property management scale. As at 30 June 2022, the GFA under the management of third-party residential properties accounted for 79.3% of the total GFA under management of residential properties.

Growth in Residential Property Management Services Portfolio

During the six months ended 30 June 2022, thanks to our outstanding service quality in residential property management and brand influence, we secured several premium residential projects such as Yunhe Nanyuan (運河南苑) and Waterfront Mansions (和道華庭). As at 30 June 2022, the Group's contracted GFA and GFA under management were approximately 147.9 million sq.m. and 101.5 million sq.m. (30 June 2021: 145.4 million sq.m. and 97.4 million sq.m.) respectively.

Geographic Presence of Residential Property Management Services Portfolio

During the six months ended 30 June 2022, the Group continued to focus on its residential property management services, optimised its national geographic presence, and deepened its developments in the advantageous region. As at 30 June 2022, the Group had established business presence in 104 cities in China. As at 30 June 2022, the Group managed a total of 832 residential properties.

The table below sets forth a breakdown of the Group’s total GFA under management with respect to residential properties as at the dates indicated, and total revenue generated from residential property management services for the periods indicated by regions:

	2022		Six months ended 30 June		2021	
	Revenue		GFA under	Revenue		GFA under
	<i>RMB'000</i>	%	management <i>sq.m.'000</i>	<i>RMB'000</i>	%	management <i>sq.m.'000</i>
Greater Bay Area	370,483	35.8	25,106	351,880	41.6	24,350
Yangtze River Delta ⁽¹⁾	220,497	21.3	22,061	231,972	27.5	21,641
Midwest China and Hainan ⁽²⁾	322,322	31.2	50,995	179,596	21.3	48,581
Bohai Economic Rim ⁽³⁾	120,360	11.7	3,322	81,214	9.6	2,856
Total	<u>1,033,662</u>	<u>100.0</u>	<u>101,484</u>	<u>844,662</u>	<u>100.0</u>	<u>97,428</u>

Notes:

- (1) Include Shanghai Municipality, Zhejiang Province, Anhui Province and Jiangsu Province.
- (2) Include Sichuan Province, Yunnan Province, Hubei Province, Hunan Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Henan Province, Fujian Province, Hainan Province, Chongqing Municipality, Xinjiang Uygur Autonomous Region, Shaanxi Province and Hebei Province.
- (3) Include Beijing Municipality and Tianjin Municipality and Shandong Province.

Community Value-added Services

Driven by government policies, the Group continues to explore the business model of “property service + daily-living service”. On the back of customers’ trust earned through its premium property management services, the Group consistently enhances its servicing ability and complements this ability with technology-empowered management to achieve cost savings and efficiency enhancement, thereby gaining a distinctively advantageous position for the promotion of value-added services. To offer more conveniences in fulfilment of the requirements of property developers and owners, residents and tenants of properties under its management, the Group also provides community value-added services in the process of providing residential property management services by giving full play to its operational advantages. Such community value-added services mainly include: (i) home-living services; (ii) property agency services; and (iii) common area value-added services. During the six months ended 30 June 2022, the Group’s revenue from the community value-added business amounted to approximately RMB191.6 million. The decrease in revenue from value-added services during the six months ended 30 June 2022 was mainly due to the delayed progress of certain community value-added services as a result of the pandemic.

Non-residential Property Management and Commercial Operational Services

Overview

The Group provides property management services to non-residential properties, including commercial properties and public properties, as well as commercial operational services to commercial properties, including office building and shopping malls. During the six months ended 30 June 2022, revenue from non-residential property management and commercial operational service segment amounted to RMB1,030.7 million, representing a year-on-year increase of 168.5%, and accounted for 49.9% of the Group's total revenue, up by 18.7 percentage points as compared with last year. Benefiting from the improvement in the Group's marketization capability, the Group's GFA under management of third-party non-residential properties accounted for 96.2% of the total GFA under management of non-residential properties.

As at 30 June 2022, total GFA under management of the Group's non-residential properties was approximately 112.7 million sq.m..

As for commercial property management and operation sector, the Group provides pre-sale management services, property management services, commercial operational services and other value-added services for shopping centres, office buildings and industrial parks, among which the Group provides commercial operational services to 25 shopping malls and office building projects. With a highly recognisable brand, digital operation capabilities and integrated management service capabilities, the Group continued to explore the market potential in commercial operations and property services.

Our Guangzhou Knowledge City U Fun commenced operation on 29 April 2022. As a new sample of the Group for building 「enjoyable and funny」 commerce in eastern Guangzhou, the project recorded outstanding performance in terms of customer flow, sales and regional influence despite the pandemic. Through online and offline brand activities, the Group continuously attracted consumers to visit the project, drawing customer flow and expand the project scope radiating eastern Guangzhou.

As for public properties sector, the Group provides property management services to 1,023 public properties. With the differentiated brands and high barriers in qualification, the Group promoted market expansion by offering benchmark projects and sharing channels and resources with member companies to deeply tap the potential for project acquisition, and has established a national presence and leading advantage in all-round business sectors such as universities, hospitals, government properties, urban public facilities, rail and transportation properties. During the six months ended 30 June 2022, thanks to our recognised comprehensive service capabilities and professional, refined and standardised service capabilities in public facilities, we secured several premium public facilities and urban service projects such as Yudu County People's Hospital, Shanghai Business and Information School and Daliang key area environmental protection and dust reduction project.

During the six months ended 30 June 2022, the Group acquired Telijie and expanded its service offerings to urban service sector. The Group offers brand, capital and management support to Telijie to achieve interactions between talents of both parties. Telijie may leverage its professional barriers, the extensive experience of management and the industrial pursuit to achieve collaboration and win-win results. During the six months ended 30 June 2022, Telijie developed 15 projects in total and successfully explored the markets in South-western and Central China, achieving breakthroughs in different markets and marching forward from Guangdong to the entire country.

Growth of Non-residential Property Management Services Portfolio

During the six months ended 30 June 2022, thanks to our outstanding service quality and brand influence, we secured several premium non-residential projects such as Yushan avenue office building, Yudu County People's Hospital, Shanghai Business and Information School and Daliang key area environmental protection and dust reduction project. As at 30 June 2022, the Group's contracted GFA and GFA under management were 137.9 million sq.m. and 112.7 million sq.m. respectively, representing an increase of 80.7% and 66.5% year-on-year respectively.

Geographic Presence of Non-residential Property Management Services Portfolio

During the six months ended 30 June 2022, the Group continued to focus on its non-residential property management and commercial operational services business, optimised its business in advantageous regions, and established its presence in regions with high growth potential. As at 30 June 2022, non-residential properties managed were located in 89 cities including major cities such as Beijing, Shanghai, Chengdu and Suzhou. As at 30 June 2022, there were 1,254 non-residential properties under the management of the Group and 1,812 non-residential properties contracted for management by the Group.

The table below sets forth a breakdown of the Group's total GFA under management with respect to non-residential properties as at the dates indicated, and total revenue generated from non-residential property management and commercial operational services as of the periods indicated by regions:

	2022		Six months ended 30 June		2021	
	Revenue		GFA under	Revenue		GFA under
	<i>RMB'000</i>	<i>%</i>	<i>management</i> <i>sq.m.'000</i>	<i>RMB'000</i>	<i>%</i>	<i>management</i> <i>sq.m.'000</i>
Greater Bay Area	540,426	52.4	53,688	198,466	51.7	15,474
Yangtze River Delta ⁽¹⁾	298,918	29.0	27,112	65,948	17.2	25,248
Midwest China and Hainan ⁽²⁾	113,083	11.0	13,378	102,282	26.6	10,102
Bohai Economic Rim ⁽³⁾	78,242	7.6	18,553	17,196	4.5	16,863
Total	<u>1,030,669</u>	<u>100.0</u>	<u>112,731</u>	<u>383,892</u>	<u>100.0</u>	<u>67,687</u>

Notes:

- (1) Include Shanghai Municipality, Zhejiang Province, Anhui Province and Jiangsu Province.
- (2) Include Sichuan Province, Yunnan Province, Hubei Province, Hunan Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Henan Province, Fujian Province, Hainan Province, Chongqing Municipality, Xinjiang Uygur Autonomous Region, Shaanxi Province and Hebei Province.
- (3) Include Beijing Municipality and Tianjin Municipality and Shandong Province.

Value-added Services for Non-residential Property

Relying on its reputation and brand influence among customers earned from premium property management and commercial operational services, the Group leverages its own operational advantages and business innovation capabilities to provide customers with full ecological value-added services covering office, business and life, and strives to create a differentiated consumption scenario and provide efficient and convenient business space. During the six months ended 30 June 2022, revenue from the Group's value-added services for non-residential property increased by 51.5% year-on-year, which demonstrated sound growth momentum.

FINANCIAL REVIEW

Revenue

The Group derived its revenue from two business segments, namely the residential property management service segment and non-residential property management and commercial operational service segment.

The table below sets forth the breakdown of revenue of the Group by business segment for the periods indicated:

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Residential property management services	1,033,662	50.1	844,662	68.8
Non-residential property management and commercial operational services	<u>1,030,669</u>	<u>49.9</u>	<u>383,892</u>	<u>31.2</u>
Total	<u><u>2,064,331</u></u>	<u><u>100.0</u></u>	<u><u>1,228,554</u></u>	<u><u>100.0</u></u>

Residential Property Management Services

The following table sets forth a breakdown of the Group's revenue from residential property management services by service line for the periods indicated:

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Pre-sale management services	134,361	13.0	177,841	21.0
Property management services	707,705	68.5	344,508	40.8
Community value-added services	<u>191,596</u>	<u>18.5</u>	<u>322,313</u>	<u>38.2</u>
Total	<u><u>1,033,662</u></u>	<u><u>100.0</u></u>	<u><u>844,662</u></u>	<u><u>100.0</u></u>

Pre-sale Management Services

Revenue generated from pre-sale management services under the Group's residential property management service segment decreased from approximately RMB177.8 million for the six months ended 30 June 2021 to approximately RMB134.4 million for the six months ended 30 June 2022. This decrease was primarily due to the decrease in the number of sales offices of residential properties under the Group's management.

Property Management Services

Revenue generated from property management services under the Group's residential property management service segment increased from approximately RMB344.5 million for the six months ended 30 June 2021 to approximately RMB707.7 million for the six months ended 30 June 2022. This increase was primarily due to the increase in the Group's GFA under management for residential properties, which was resulted from the increase in the number of residential property projects under management.

Community Value-added Services

Revenue generated from community value-added services under the Group's residential property management service segment decreased from approximately RMB322.3 million for the six months ended 30 June 2021 to approximately RMB191.6 million for the six months ended 30 June 2022. This decrease was primarily due to the delayed progress of certain community value-added services as a result of the pandemic.

Non-residential Property Management and Commercial Operational Services

The following table sets forth a breakdown of the Group's revenue from non-residential property management and commercial operational services by service line for the periods indicated:

	Six months ended 30 June			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Pre-sale management services	18,144	1.8	11,226	2.9
Property management services	906,621	88.0	287,974	75.0
Commercial operational services	61,186	5.9	55,181	14.4
Other value-added services	44,718	4.3	29,511	7.7
Total	<u>1,030,669</u>	<u>100.0</u>	<u>383,892</u>	<u>100.0</u>

Pre-sale Management Services

Revenue generated from pre-sale management services under the Group's non-residential property management and commercial operational service segment increased from approximately RMB11.2 million for the six months ended 30 June 2021 to approximately RMB18.1 million for the six months ended 30 June 2022. This increase was primarily due to the increase in the number of sales offices of non-residential properties under the Group's management.

Property Management Services

Revenue generated from property management services under the Group's non-residential property management and commercial operational service segment increased from approximately RMB288.0 million for the six months ended 30 June 2021 to approximately RMB906.6 million for the six months ended 30 June 2022. This increase was primarily due to the increase in its GFA under management for non-residential properties.

Commercial Operational Services

Revenue generated from commercial operational services under the Group's non-residential property management and commercial operational service segment increased from approximately RMB55.2 million for the six months ended 30 June 2021 to approximately RMB61.2 million for the six months ended 30 June 2022. Such increase was mainly due to the increase in preliminary planning and consultancy services and tenant sourcing services the Group provided in the first half of 2022.

Other Value-added Services

Revenue generated from other value-added services under the Group's non-residential property management and commercial operational service segment increased from approximately RMB29.5 million for the six months ended 30 June 2021 to approximately RMB44.7 million for the six months ended 30 June 2022. This increase was primarily due to the increase in its value-added services provided driven by the increase in its GFA under management for non-residential properties.

Cost of Sales

The Group's cost of sales represents costs and expenses directly attributable to the provision of its services, which comprises (i) labor costs; (ii) subcontracting costs; (iii) utilities; (iv) office expenses; (v) cleaning expenses; (vi) rent and management fees for staff dormitory and car parks; (vii) security expenses; and (viii) others. For the six months ended 30 June 2022, the total cost of sales of the Group was approximately RMB1,442.3 million, which was increased by approximately RMB757.2 million or 110.5% as compared to approximately RMB685.1 million for the corresponding period in 2021.

Gross Profit and Gross Profit Margin

Based on the above reasons, the gross profit of the Group increased by approximately RMB78.7 million or 14.5% to approximately RMB622.1 million for the six months ended 30 June 2022 from approximately RMB543.4 million for the corresponding period in 2021. The Group reported gross profit margin of 30.1% for the six months ended 30 June 2022 (for the six months ended 30 June 2021: 44.2%). The decrease in gross margin is mainly due to the increase in the number of public facilities with lower gross profit margin which were arising from acquisition of certain subsidiaries.

Other Income and Gains

The other income and gains of the Group increased by approximately RMB28.5 million or 323.9% to approximately RMB37.3 million for the six months ended 30 June 2022 from approximately RMB8.8 million for the corresponding period in 2021, and mainly comprised bank interest income, government grants and tax incentives on value-added tax of approximately RMB4.3 million, and RMB14.3 million and RMB10.1 million respectively.

Administrative Expenses

Administrative expenses mainly consist of (i) salaries and allowances for the Group's administrative and management personnel; (ii) depreciation and amortisation costs; and (iii) office expenses. For the six months ended 30 June 2022, the administrative expenses of the Group were approximately RMB232.6 million, which increased by approximately RMB89.5 million or 62.5% as compared to approximately RMB143.1 million for the corresponding period in 2021. Such increase was mainly due to the Group's business expansion.

Income Tax

For the six months ended 30 June 2022, the income tax of the Group was approximately RMB86.0 million (for the six months ended 30 June 2021: approximately RMB87.7 million).

FINANCIAL POSITION AND CAPITAL STRUCTURE

Total Assets, Total Liabilities and Current Ratio

As at 30 June 2022, the total assets of the Group was approximately RMB7,524.7 million (31 December 2021: approximately RMB5,002.1 million), and the total liabilities was approximately RMB3,746.9 million (31 December 2021: approximately RMB1,486.2 million). As at 30 June 2022, the current ratio of the Group was 1.58 (31 December 2021: 1.89).

Borrowings and Charges on the Group's Assets

As at 30 June 2022, the Group's total borrowings were approximately RMB663.7 million. Amongst which, approximately RMB156.7 million will be repayable within 1 year and approximately RMB507.0 million will be repayable between 2 and 5 years. The Group's bank and other loans were secured by trade receivables and property, plant and equipment of the Group with total carrying value of approximately RMB65.9 million, and equity interest of a subsidiary of the Group. The carrying amounts of all the Group's bank and other loans were denominated in RMB. All of the Group's bank and other loans were charged at floating interest rates except for loan balance of approximately RMB641.8 million which were charged at fixed interest rates as at 30 June 2022.

As at 31 December 2021, the Group did not have any outstanding borrowings.

Trade Receivables

The Group's trade receivables mainly represent receivables from residential property management services and non-residential property management and commercial operational services. The Group's trade receivables as at 30 June 2022 amounted to approximately RMB1,467.6 million, representing an increase of approximately RMB405.6 million or 38.2% as compared to approximately RMB1,062.0 million as at 31 December 2021.

Trade Payables

The Group's trade payables as at 30 June 2022 amounted to approximately RMB416.0 million representing an increase of approximately RMB170.2 million or 69.2% as compared to approximately RMB245.8 million as at 31 December 2021.

Gearing Ratio

Gearing ratio is calculated by the net debt (total debt net of cash and cash equivalents and restricted cash) divided by total equity. The Group was in a net cash position as at 30 June 2022 and 31 December 2021.

Contingent Liabilities

As at 30 June 2022 and 31 December 2021, the Group did not have any material contingent liabilities.

Foreign Exchange Risk

The Group mainly operates in the PRC and most of its operations are denominated in RMB. The Group will closely monitor the fluctuations of the RMB exchange rate and give prudent consideration as to entering into currency swap arrangement as and when appropriate for hedging corresponding risks. During the first half of 2022, the Group had not engaged in hedging activities for managing foreign exchange rate risk.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Acquisition of Telijie

On 10 January 2022, Guangdong Hejing Youhuo Holdings Group Co., Ltd. (an indirect wholly-owned subsidiary of the Company) as the purchaser has entered into an equity acquisition agreement with HOU Wenqing and CHENG Naizhen as the vendors for the acquisition of 50% equity interests in Telijie at a cash consideration of RMB165.0 million. Telijie is principally engaged in urban and rural environmental sanitation service. As at the date of this announcement, the acquisition has been completed and Telijie has become a non-wholly owned subsidiary of the Group. Its financial results has been consolidated into the Group's financial statements. For details, please refer to the announcement of the Company dated 10 January 2022.

Save as disclosed above, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures, nor was there any plan authorised by the Board for other material investments or additions of capital assets during the six months ended 30 June 2022.

USE OF NET PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 October 2020 by way of Global Offering (as defined in the prospectus of the Company dated 19 October 2020, the "**Prospectus**"), raising the total net proceeds (after deducting professional fees, underwriting commissions and other related listing expenses) of approximately Hong Kong dollars ("**HK\$**") 2,913.1 million (the "**Net Proceeds**"). For details of the original proposed allocation of the Net Proceeds, please refer to the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in the Prospectus.

On 29 June 2021, the Group resolved to revise the allocation of the Net Proceeds to apply the unutilised and unplanned Net Proceeds as follows: (i) approximately HK\$705.7 million for pursuing strategic acquisitions and investment opportunities to further develop strategic alliances, expand its business scale and increase its market shares in residential property management service market and other non-residential property management and commercial operational service market; (ii) approximately HK\$241.3 million for upgrading the intelligent service systems in order to further enhance its operational efficiency and service quality; (iii) approximately HK\$145.6 million for further diversifying its value-added services; and (iv) approximately HK\$72.8 million for its general corporate purposes and working capital. Details of the re-allocation are set out in the Company's announcement dated 29 June 2021.

The Group continues to keep abreast with the latest market trends, explore market opportunities in depth with its full business layout, to consistently broaden the breadth and depth of its business and enhance its overall competitiveness in continuous creation of value for its shareholders (the “**Shareholders**”). Based on the aforementioned considerations as well as the following reasons, in order to improve the efficiency of the use of the Net Proceeds and to capture market opportunities for business development in a timely manner, on 10 January 2022, the Board resolved to further adjust the allocation proportion of the Net Proceeds. As set out in the announcement of the Company dated 10 January 2022 (the “**Announcement**”), the unutilised and unplanned Net Proceeds were intended to be allocated and used as follows: (i) approximately HK\$250 million for pursuing strategic acquisitions and investment opportunities to further develop strategic alliances, expand its business scale and increase its market shares in residential property management service market and other non-residential property management and commercial operational service market; (ii) approximately HK\$120.6 million for upgrading the intelligent service systems in order to further enhance its operational efficiency and service quality; (iii) approximately HK\$36.4 million for further diversifying its value-added services; and (iv) approximately HK\$52.7 million for its general corporate purposes and working capital.

As at 30 June 2022, an analysis of the utilisation of the Net Proceeds is as follows:

Use of the Net Proceeds as set out in the Announcement	Revised allocation as stated in the Announcement <i>HK\$ million</i>	Utilised or reserved Net Proceeds as at 30 June 2022 <i>HK\$ million</i>	Unutilised or unplanned Net Proceeds as at 30 June 2022 <i>HK\$ million</i>	Expected time of full utilisation
To pursue strategic acquisitions and investment opportunities	2,703.4	2,453.4	250.0	Before 31 December 2023
To upgrade the intelligent service systems:				
— to purchase and upgrade hardware, establish smart terminal equipment and Internet of Things Platform	84.2	—	84.2	Before 31 December 2023
— to develop and upgrade the intelligence service systems	36.4	—	36.4	Before 31 December 2023
Diversification into value-added services:				
— to cooperate with companies that provide complementary community products and services	36.4	—	36.4	Before 31 December 2023
For general corporate purposes and working capital	52.7	—	52.7	Not applicable
Total	<u>2,913.1</u>	<u>2,453.4</u>	<u>459.7</u>	

The unutilised or unplanned Net Proceeds will be applied according to the intentions disclosed above. The expected time of utilisation for the unutilised or unplanned Net Proceeds is based on the Directors' best estimation barring unforeseen circumstances, and may be subject to change based on the future development of the Company's business and the market conditions.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group has approximately 20,000 employees (31 December 2021: approximately 18,000 employees). Compensation for employees of the Group is made with reference to the market as well as individual performance and contributions, and extensive use of bonuses to link performance with reward is adopted. The Group reviews the remuneration policies and packages on a regular basis and make necessary adjustments that accommodate the pay levels in the industry. In addition to basic salaries, the Group also provides a comprehensive benefit package and career development opportunities, including performance-based bonus payments, share options, retirement schemes, medical benefits, and both internal and external training appropriate to individual needs.

INTERIM DIVIDEND

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

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. During the six months ended 30 June 2022, the Company has adopted and complied with the code provisions as set out in the Corporate Governance Code (the “**CG Code**”) as set out in Part 2 of Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), save for the deviations for reasons set out below. The Company will continue to review and monitor its corporate governance practices to ensure the compliance of the CG Code.

Code provision C.1.6 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and code provision F.2.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Mr. KONG Jianmin, a non-executive Director and the chairman of the Board (the “**Chairman**”), was unable to attend the annual general meeting of the Company held on 2 June 2022 due to his other business engagements. In the absence of the Chairman, Mr. KONG Jiannan, an executive Director and the Chief Executive Officer, acted as chairman of such annual general meeting to ensure an effective communication with the Shareholders. Mr. KONG Jianmin has followed up with Mr. KONG Jiannan for any opinions or concerns of the Shareholders expressed at the annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors’ securities transactions. In response to specific enquiry made by the Company, all Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2022.

AUDIT COMMITTEE

The Audit Committee comprises three members who are independent non-executive Directors.

The Audit Committee has reviewed the Interim Financial Information.

INTERIM REPORT

The 2022 interim report of the Company containing all the financial and other related information of the Group required by the Listing Rules will be published on the Company's website (www.kwgliving.com) and the HKEXnews website (www.hkexnews.hk), and printed copies will be sent to the Shareholders before the end of September 2022.

By order of the Board
KWG Living Group Holdings Limited
Mr. KONG Jianmin
Chairman

Hong Kong, 23 August 2022

As at the date of this announcement, the Board of Directors of the Company comprises Mr. KONG Jianmin (Chairman) as Non-executive Director; Mr. KONG Jiannan (Chief Executive Officer) and Ms. YANG Jingbo as Executive Directors; and Ms. LIU Xiaolan, Mr. FUNG Che Wai, Anthony and Ms. NG Yi Kum as Independent Non-executive Directors.