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ZHONG AO HOME GROUP LIMITED
中奧到家集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1538)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2017	2016	
	RMB'000	*RMB'000*	*Change*
Revenue	**977,552**	635,146	53.9%
Gross profit	**296,837**	156,738	89.4%
Profit/(loss) for the year	**99,288**	(3,352)	3,062.1%
Profit/(loss) attributable to owners of the parent	**90,549**	(6,383)	1,518.6%
Gross profit margin (%)	**30.4%**	24.7%	5.7pp
Net profit/(loss) margin (%)	**10.2%**	(0.5)%	10.7pp
Basic earnings/(loss) per share *(RMB)*	**0.113**	(0.008)	1,512.5%
Final dividend per share *(HK$)*	**0.05**	–	N/A

The board (the "Board") of directors (the "Directors") of Zhong Ao Home Group Limited 中奧到家集團有限公司 (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 together with the comparative audited figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	**2017** **RMB'000**	2016 *RMB'000*
REVENUE	*5*	**977,552**	635,146
Cost of sales		**(680,715)**	(478,408)
Gross profit		**296,837**	156,738
Other income and gains	*5*	**20,617**	23,309
Selling and marketing expenses		**(6,394)**	(29,450)
Administrative expenses		**(115,121)**	(99,675)
Share of profits and losses of:			
Joint ventures		**2,645**	2,148
An associate		**(111)**	–
Other expenses		**(39,754)**	(24,109)
Finance costs	*7*	**(9,512)**	(4,705)
PROFIT BEFORE TAX		**149,207**	24,256
Income tax expenses	*8*	**(49,919)**	(27,608)
		99,288	(3,352)
PROFIT/(LOSS) FOR THE YEAR			
Attributable to:			
– Owners of the parent		**90,549**	(6,383)
– Non-controlling interests		**8,739**	3,031
		99,288	(3,352)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted (RMB)		**0.113**	(0.008)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

	NOTES	**2017** *RMB'000*	2016 *RMB'000* (Restated*)
NON-CURRENT ASSETS			
Property and equipment		**35,287**	38,159
Investment properties		**163,592**	139,660
Prepayments for acquisition of properties		**14,738**	27,952
Goodwill		**105,560**	104,630
Investments in joint ventures		**5,020**	4,363
Investment in an associate		**2,689**	–
Intangible assets		**94,836**	106,289
Long-term deposits		**2,267**	–
Deferred tax assets		**24,530**	16,892
Total non-current assets		**448,519**	437,945
CURRENT ASSETS			
Inventories		**824**	748
Trade and bills receivables	*11*	**190,932**	159,373
Prepayments, deposits and other receivables	*12*	**112,290**	73,112
Financial assets designated as at fair value through profit or loss		**–**	2,550
Cash and cash equivalents		**483,806**	442,473
Total current assets		**787,852**	678,256
CURRENT LIABILITIES			
Trade payables	*13*	**44,965**	36,575
Other payables and accruals	*14*	**385,962**	354,052
Interest-bearing bank borrowings		**42,276**	45,524
Tax payables		**88,439**	51,840
Total current liabilities		**561,642**	487,991
NET CURRENT ASSETS		**226,210**	190,265
TOTAL ASSETS LESS CURRENT LIABILITIES		**674,729**	628,210

* Certain amounts shown here do not correspond to the audited financial statements for the year ended 31 December 2016 and reflect the adjustments made. Please refer to Note 4 for details.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER

	NOTES	**2017** *RMB'000*	2016 *RMB'000* (Restated*)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**26,059**	29,312
Interest-bearing bank borrowings		**58,693**	83,424
Liabilities for cash-settled share-based payments		**–**	12,411
Other long-term payable		**43,284**	59,617
Total non-current liabilities		**128,036**	184,764
NET ASSETS		**546,693**	443,446
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	*15*	**6,619**	6,549
Reserves		**485,760**	379,229
		492,379	385,778
Non-controlling interests		**54,314**	57,668
TOTAL EQUITY		**546,693**	443,446

* Certain amounts shown here do not correspond to the audited financial statements for the year ended 31 December 2016 and reflect the adjustments made. Please refer to Note 4 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Zhong Ao Home Group Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Islands Companies Law on 5 January 2015. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 25 November 2015. The registered office address of the Company is P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, Cayman Islands.

The Company's subsidiaries are principally engaged in the provision of property management services and property management consulting services in the People's Republic of China (the "PRC"). In the opinion of the directors, the Company's immediate and ultimate holding company is Qichang International Limited ("Qichang"), a limited liability company incorporated in the British Virgin Islands (the "BVI").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and financial assets designated as fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 34(b) to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have any disposal group held for sale as at 31 December 2017.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the geographical zones of services rendered in the PRC as follows:

(a) Southern Region includes the cities of Guangzhou, Nanning, Sanya, Haikou, Foshan, Zhongshan, Jiangmen, Qingyuan, Zhaoqing, Guilin, Zhuhai, Wenchang and Cenxi;

(b) Eastern and Central Region includes the cities of Hangzhou, Suzhou, Chongqing, Ningbo, Jiaxing, Nantong, Shaoxing, Quzhou, Nanchang, Shanghai, Wuxi, Xuancheng, Zhenjiang, Huzhou, Nanjing, Hengyang, Jingjiang, Zhuji, Bazhou, Chuzhou, Yangzhou, Chizhou, Wenzhou, Huai'an, Zhoushan, Taizhou, Taixing and Hefei; and

(c) Northern Region includes the cities of Baotou, Eerduosi, Dalian, Beijing, Tianjin, Tangshan, Qingdao, Shenyang and Zibo.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that changes in fair value of investment properties, bank interest income, change in fair value of financial assets designated as fair value through profit or loss, investment from available-for sale financial investment, share of profits of joint ventures, share of losses of an associate, net foreign exchange gains/losses, share-based payment expenses, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, cash and cash equivalents, financial assets designated as fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, other long-term payable, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Operating segments

	Southern Region *RMB'000*	**Eastern and Central Region** *RMB'000*	**Northern Region** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2017				
Segment revenue	**235,479**	**676,262**	**65,811**	**977,552**
Segment results	**65,061**	**122,194**	**11,823**	**199,078**
Reconciliation:				
Bank interest income				**1,795**
Change in fair value of investment properties				**3,960**
Net foreign exchange loss				**(8,657)**
Gain on disposal of available-for-sale financial investments				**1,125**
Corporate expenses				**(51,602)**
Share-based payment expense				**(2,495)**
Reversal of share-based payment expense				**12,981**
Share of losses of an associate				**(111)**
Share of profit of joint ventures				**2,645**
Finance costs				**(9,512)**
Profit before tax				**149,207**

	Southern Region *RMB'000*	Eastern and Central Region *RMB'000*	Northern Region *RMB'000*	Total *RMB'000*
Year ended 31 December 2016				
Segment revenue	201,219	380,557	53,370	635,146
Segment results	41,603	37,186	4,472	83,261
Reconciliation:				
Bank interest income				3,655
Change in fair value of investment properties				3,341
Net foreign exchange gains				12,101
Corporate expenses				(59,517)
Share-based payment expense				(16,028)
Share of profits of joint ventures				2,148
Finance costs				(4,705)
Profit before tax				24,256

The Group is mainly engaged in property management business, sale assistance businesses, online to offline business and other businesses. The following table provides an analysis of the Group's revenue and results based on types of business:

	Property management business	**Sale assistance businesses**	**Online to offline business**	**Other businesses**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
	(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	
Year ended 31 December 2017					
Segment revenue	**910,941**	**43,187**	**288**	**23,136**	**977,552**
Segment results	**185,378**	**15,979**	**(4,079)**	**1,800**	**199,078**

	Property management business	Sale assistance businesses	Online to offline business	Other businesses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note b)*	*(Note c)*	*(Note d)*	
Year ended 31 December 2016					
Segment revenue	559,372	55,731	8,264	11,779	635,146
Segment results	104,943	23,472	(50,274)	5,120	83,261

Notes:

(a) The Group primarily provides property developers and property owners with a broad range of property management services to mainly residential properties, commercial and government buildings. Services provided by the Group include standard property management services and ancillary services.

(b) The Group provides property management service to property developers for their sales centres. The services rendered by the Group include cleaning, security and maintenance services for their model houses and sales centres and provision of general assistance to facilitate the sales process of the properties.

(c) The Group offers a broad range of services and products to its residents, as well as enhancement to its existing property management services through its electronic sales platform.

(d) Other businesses comprise consulting services, engineering services, catering services and the sale of engineering spare parts.

4. CORRECTION OF PRIOR PERIOD ERROR

On 26 July 2016, the Group entered into an equity transfer agreement and a joint venture agreement (the "Agreements") with 10 individual equity holders (the "Vendors") to acquire 70% equity interests in 浙江永成物业管理有限公司 and its subsidiaries (collectively referred to as "Zhejiang Yongcheng") with certain indebtedness (the "Acquisition") at a cash consideration of RMB210,000,000. The Acquisition of the 70% equity interests in Zhejiang Yongcheng was completed in October 2016. According to the Agreements, net profit of Zhejiang Yongcheng derived during the period from 1 January 2016 to the date upon the renewed business licence of Zhejiang Yongcheng being granted should be appropriated to the foregoing Vendors. The profit represented identifiable liabilities at the date of acquisition of Zhejiang Yongcheng. As a consequence, other payables and accruals and goodwill at the date of acquisition of Zhejiang Yongcheng recorded by the Group have been understated and non-controlling interests at the date of acquisition of Zhejiang Yongcheng recorded by the Group have been overstated. The correction of error did not have an impact on profit or loss.

The error has been corrected by restating each of the affected financial statement account balances for the prior year as follows:

Impact on the consolidated statement of financial position

	31 December 2016 *RMB'000*
Increase in goodwill and total non-current assets	15,447
Increase in other payables and accruals, and total current liabilities	22,067
Decrease in net assets	**6,620**
Decrease in equity attributable to non-controlling interests	6,620
Decrease in total equity	**6,620**

The change did not have an impact on profit or loss and other comprehensive income, earnings per share for the year ended 31 December 2016 or the Group's operating, investing and financing cash flows.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents income from rendering services such as property management services and sale assistance services and the sale of goods, net of business tax and other surcharges.

An analysis of revenue, other income and gains is as follows:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Rendering of services	**971,390**	629,062
Sale of goods	**6,162**	6,084
	977,552	635,146
Other income		
Bank interest income	**1,795**	3,655
Government grants	**11,095**	3,028
Rental income	**2,575**	762
Others	**67**	422
	15,532	7,867
Gains		
Change in fair value of investment properties	**3,960**	3,341
Gain on disposal of available-for-sale financial investments	**1,125**	–
Net foreign exchange gain	**–**	12,101
	5,085	15,442
	20,617	23,309

6. PROFIT BEFORE TAX

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

	Notes	**2017** **_RMB'000_**	2016 *RMB'000*
Cost of services provided		**674,806**	473,044
Cost of goods sold		**5,909**	5,364
Depreciation		**10,045**	7,484
Amortisation of intangible assets		**16,305**	2,559
Employee benefit expense (excluding compensation to key management personnel):			
Salaries and other benefits		**297,679**	188,788
Retirement benefit scheme contributions		**11,881**	13,511
Share-based payment expenses		**1,885**	3,459
		311,445	205,758
Impairment of trade and bills receivables		**22,431**	13,434
Impairment of other receivables		**7,041**	–
Minimum lease payments under operating leases		**7,535**	5,385
Auditor's remuneration		**2,250**	7,350
Change in fair value of investment properties		**(3,960)**	(3,341)
Rental income	5	**(2,575)**	(762)
Net foreign exchange losses/(gains)		**8,657**	(12,101)
Bank interest income	5	**(1,795)**	(3,655)
Gain on disposal of available-for-sale financial investments	5	**(1,125)**	–
Loss on disposal of items of property and equipment		**77**	105
Government grants*	5	**(11,095)**	(3,028)

* Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on borrowings	**4,646**	2,384
Interest expense imputed on consideration payable	**6,221**	1,088
Interest expense/(reversed) imputed on non-current liabilities for cash-settled share-based payments	**(1,355)**	1,233
	9,512	4,705

8. INCOME TAX EXPENSE

Provision for PRC corporate income tax (the "CIT") has been provided at the applicable income tax rate of 25% for the year ended 31 December 2017 (2016: 25%) on the assessable profits of the Group's subsidiaries in Mainland China, except for those subsidiaries enjoyed lower tax rate for benefit.

No provision for Hong Kong profits tax has been made in the financial statements as no assessable profit was derived from Hong Kong during both years.

	2017	2016
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**60,810**	27,061
Deferred tax	**(10,891)**	547
Total tax charge for the year	**49,919**	27,608

9. DIVIDENDS

During 2016, a final dividend of HK2.5 cents per share and a special dividend of HK2.0 cents per share in respect of the year ended 31 December 2015 were declared by the directors of the Company and approved in the Company's annual general meeting on 31 May 2016. Dividend amounting to RMB31,051,000 has been paid to owners of the Company in July 2016.

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) attributable to ordinary equity holders of the parent for the year ended 31 December 2017 and the weighted average number of ordinary shares of 798,146,378 shares (2016: 798,271,066 shares) in issue during the year.

The calculation of the basic earnings/(loss) per share is based on:

	2017	2016
	RMB'000	*RMB'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings /(loss) per share calculation	**90,549**	(6,383)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings /(loss) per share calculation	**798,146,378**	798,271,066

For the year ended 31 December 2017, the computation of diluted earnings per share did not include the exercise of the share options of the Company since the exercise price of the share options is higher than the average market price of the Company's shares during the year ended 31 December 2017.

For the year ended 31 December 2016, the computation of diluted loss per share did not take into account the effect of the share options of the Company since its exercise would result in a decrease in loss per share.

11. TRADE AND BILLS RECEIVABLES

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade and bills receivables	**258,884**	205,323
Less: provision for doubtful debts	**(67,952)**	(45,950)
	190,932	159,373

Trade and bills receivables mainly arise from property management service income. The credit period is generally 45 days for property owners and property developers upon the issuance of demand notes. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management and credit limits attributed to customers are reviewed once a year. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the above provision for the impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of RMB67,952,000 (2016: RMB45,950,000) with a carrying amount before provision of RMB67,952,000 (2016: RMB45,950,000).

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the date of demand note, net of provision for impairment is as follows:

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Within 30 days	**46,480**	31,393
Over 30 days and within 90 days	**34,725**	32,355
Over 90 days and within 180 days	**37,654**	34,306
Over 180 days and within 365 days	**54,585**	42,404
Over one year	**17,488**	18,915
	190,932	159,373

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Payment on behalf of customers to utility suppliers	**57,227**	26,799
Prepayments	**24,580**	20,627
Deposits paid to utility suppliers	**17,132**	12,721
Amounts due from non-controlling equity holders of a subsidiary	**–**	298
Taxes recoverable	**864**	1,179
Other receivables	**23,210**	16,288
	123,013	77,912
Less: provision for doubtful debts	**(10,723)**	(4,800)
Total	**112,290**	73,112

13. TRADE PAYABLES

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

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
Within 60 days	**30,938**	31,369
Over 60 days and within 180 days	**8,445**	2,738
Over 180 days and within 365 days	**3,978**	1,252
Over one year	**1,604**	1,216
	44,965	36,575

The trade payables are interest-free and normally settled on terms of 30 to 90 days.

The fair values of trade payables approximate to their carrying amounts due to their relatively short term maturity.

14. OTHER PAYABLES AND ACCRUALS

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000* (Restated)
Receipts on behalf of community residents for utilities	**128,671**	81,864
Receipts in advance	**82,572**	78,323
Accruals	**70,634**	89,511
Deposits received	**63,017**	51,917
Other payable for option	**22,155**	22,101
Amounts due to non-controlling equity holders of a subsidiary	**5,033**	21,684
Amount due to a joint venture	**–**	150
Other tax payables	**13,880**	8,502
	385,962	354,052

As at 31 December 2017, the Group's other payables and accruals included amounts due to non-controlling equity holders of a subsidiary which are unsecured, interest free and repayable on demand.

Except for other payable for option, other payables are non-interest-bearing and have an average term of three months.

15. SHARE CAPITAL

Shares

	Number of ordinary shares	**Nominal value of HKD0.01 each**
		HK$'000
Authorised:		
At 1 January 2017 and 31 December 2017	8,000,000,000	80,000
Issued and fully paid:		
At 1 January 2016	800,000,000	8,000
Shares repurchased and cancelled *(note (a))*	(5,456,000)	(55)
At 31 December 2016 and 1 January 2017	794,544,000	7,945
Shares issued *(note (b))*	8,434,000	84
Shares cancelled *(note (a))*	(372,000)	(3)
At 31 December 2017	802,606,000	8,026

	2017	2016
	RMB'000	*RMB'000*
Issued and fully paid:		
Ordinary shares		
At 1 January	**6,549**	6,594
Shares issued	**73**	–
Shares cancelled	**(3)**	(45)
At 31 December	**6,619**	6,549

(a) During the year 2016, 5,456,000 shares were repurchased and cancelled and 372,000 shares were repurchased but not yet cancelled and were recognised as treasury shares at 31 December 2016, which have been cancelled on 11 January 2017.

(b) During the year 2017, 8,434,000 shares were issued and granted to the eligible employees under the share award scheme at nil consideration.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a leading independent property management company in China. In 2017, the Group was rated among the Best 10 of property management enterprises in China in terms of the overall strength by China Real Estate Association* (中國房地產業協會), Shanghai E-house China R&D Institute* (上海易居房地產研究院) and China Real Estate Appraisal Centre* (中國房地產測評中心). As of 31 December 2017, the Group had a total contracted gross floor area ("GFA") of 66.7 million square meters ("sq.m.") where it was contracted to manage 500 properties across 43 cities in China.

The Group main business line is property management business. Under the property management business line, the Group is engaged in the provision of property management services, sales assistance services and other services and sales of goods.

Property management services

The Group primarily provides property developers and property owners with a broad range of property management services to mainly residential properties, commercial and government buildings. Services provided by the Group include standard property management services and also ancillary services such as cleaning, gardening, security, repair and maintenance and butler services. Through its butler services, the Group provides personalized and premium property management services to residents with its trained butlers onsite. While its primary and long-term business focus is on the residential property market, the Group also provides services to non-residential properties, including both stand-alone non-residential properties and properties associated with residential properties, such as schools and commercial buildings.

The Group believes that service quality is fundamental to establish a solid foundation to support the growth of the Group's business. The Group holds various qualifications and licenses in respect of property management services, namely ISO 9001, ISO 14001, OHSAS 18001 and level one property management qualification certificate.

Sales assistance services

The Group provides property developers with sales assistance services by deploying on-site staff at the sales centres to maintain the conditions of the centres and provide timely assistance to facilitate various aspects of the sales process. The Group generally continues to service the property developer clients after the expiration of the sales assistance contracts by entering into preliminary property management contracts. Sales assistance serves as an important source of business for the property management services.

Other services and sales of goods

This business line primarily consists of the provision of consulting services, engineering and catering services, and the sales of engineering spare parts.

Property Management Services

As of 31 December 2017, the Group had expanded its presence to 43 cities in China where it was contracted to manage a total of 500 residential properties and non-residential premises such as commercial or government buildings with an aggregate contracted GFA of 66.7 million sq.m.. This represented an increase of 11.2% compared to the aggregate contracted GFA of 60.0 million sq.m. as of 31 December 2016. In relation to the delivered GFA of 54.6 million sq.m. in 2017, the increase represented a growth of 22.4% compared to the delivered GFA of 44.6 million sq.m. as of 31 December 2016.

The acquisitions of 70% equity interests in Eastern Harbour Engineering Management Limited ("Eastern Harbour") and Zhejiang Yongcheng Property Management Company Limited ("Yongcheng") in 2016 and the further acquisition of 7.5% equity interest in Yongcheng in 2017 provided a stable and healthy growth of the Group's business. Eastern Harbour and Yongcheng enhanced the portfolio of properties under management and revenue source in the eastern and central region of China. The Group strives to develop new business relationships from the existing customer base and own network in order to provide strong organic growth to the Group. In addition to organic growth, the Group continues to identify the right acquisition targets to strengthen its portfolio and increase geographic presence across China.

Geographic Presence

The Group will continue to strategically select markets to enter into, focus on those with more developed economies and comparatively high per capita GDP. Once the Group has established presence in a new city, it seeks to expand its business within the same city or neighboring cities with a view to maximizing its economies of scale.

The table below sets forth the revenue breakdown of different geographic areas where the Group has established presence for the years indicated.

	2017	2016
	RMB'000	*RMB'000*
Eastern and Central China	**676,262**	380,557
Southern China	**235,479**	201,219
Northern China	**65,811**	53,370
Total	**977,552**	635,146

The map below illustrates the cities in which properties the Group was contracted to manage were located and the number of projects in each city as of 31 December 2017.

■ Eastern and Central China

1. Chizhou (1)
2. Chongqing (1)
3. Chuzhou (6)
4. Hangzhou (37)
5. Huaian (1)
6. Huanggang (1)
7. Huzhou (17)
8. Jiaxing (2)
9. Nantong (8)
10. Ningbo (271)
11. Quzhou (4)
12. Shanghai (10)
13. Shaoxing (22)
14. Suzhou (8)
15. Táizhou (1)
16. Tàizhou (1)
17. Wenzhou (4)
18. Wuxi (14)
19. Xuancheng (4)
20. Yangzhou (1)
21. Zhenjiang (2)
22. Zhoushan (1)

■ Southern China

23. Cenxi (3)
24. Foshan (19)
25. Guangzhou (7)
26. Guilin (1)
27. Haikou (1)
28. Huizhou (1)
29. Jiangmen (1)
30. Nanning (18)
31. Qingyuan (3)
32. Sanya (9)
33. Wenchang (2)
34. Wuzhou (2)
35. Zhaoqing (4)
36. Zhongshan (2)
37. Zhuhai (1)

■ Northern China

38. Baoding(1)
39. Baotou (3)
40. Beijing (2)
41. Dalian (1)
42. Eérduosi (1)
43. Langfang (1)

Note: Numbers in parentheses represent the number of contracted projects.

The table below sets forth the delivered contracted GFA and the number of properties under management as of the dates indicated.

	As of 31 December 2017		As of 31 December 2016	
	Sq.m. in thousands	***No.***	*Sq.m. in thousands*	*No.*
Residential properties				
Eastern and Central China[1]	**33,450**	**239**	27,160	201
Southern China[2]	**12,414**	**56**	9,897	45
Northern China[3]	**1,861**	**6**	744	3
Subtotal	**47,725**	**301**	37,801	249
Non-residential properties	**6,836**	**132**	6,794	124
Total	**54,561**	**433**	44,595	373

As of 31 December 2017, the Group's contracted GFA of undelivered properties amounted to approximately 12.2 million sq.m. (2016: 15.4 million sq.m.)

Notes:

(1) Including Chizhou, Chongqing, Chuzhou, Hangzhou, Huaian, Huanggang, Huzhou, Jiaxing, Nantong, Ningbo, Quzhou, Shanghai, Shaoxing, Suzhou, Táizhou, Tàizhou, Wenzhou, Wuxi, Xuancheng, Yangzhou, Zhenjiang and Zhoushan.

(2) Including Cenxi, Foshan, Guangzhou, Guilin, Haikou, Huizhou, Jiangmen, Nanning, Qingyuan, Sanya, Wenchang, Wuzhou, Zhaoqing, Zhongshan and Zhuhai.

(3) Including Baoding, Baotou, Beijing, Dalian, Eérduosi and Langfang.

The Group will continue to expand its business through obtaining new service engagements and acquisition of other property management companies. The table below indicates the movement of the total contracted GFA and the number of properties the Group was contracted to manage during the year.

	As of 31 December 2017		As of 31 December 2016	
	Sq.m. in thousands	***No.***	*Sq.m. in thousands*	*No.*
As of beginning of period	**59,995**	**455**	33,815	167
New engagements[(1)]	**8,574**	**66**	5,289	23
Acquisitions	**258**	**3**	22,291	274
Terminations[(2)]	**(2,080)**	**(24)**	(1,400)	(9)
As of end of period	**66,747**	**500**	59,995	455

Notes:

(1) In relation to properties the Group manages, new engagements primarily include service engagements for new constructions developed by property developers and service engagements for residential properties replacing their existing property management companies.

(2) Including the contracted GFA and the number of properties the Group ceased to manage, which were primarily due to non-renewal of certain property management contracts and mutual termination prior to expiration for commercial reasons.

Sales Assistance Services

The Group provides property developers with cleaning, security and maintenance of their model homes and sales centers and assists in facilitating the sale process of the properties. The sale assistance service contracts generally have a duration of 6 to 18 months and could be terminated prior to the expiration date if all display units have been sold out. The Group provided sales assistance services to 66 and 72 properties in 2017 and 2016, respectively. The Group can enter into new property management contracts with most of the property developers via this sales channel by demonstrating the expertise and providing of quality sales assistance services.

Other services and sales of goods

The Group provides installation, repairing and maintenance services primarily to the elevators of the properties under management. Engineering spare parts can be sold separately to other elevator servicing companies. Also, the Group operates canteens in the government buildings and provides catering services there. In relation to consulting services, the Group provides consultation and advice to property developers on various aspects of their operations, including the general structure, lift or road planning of the properties which may affect the quality of the property management services that the residents receive subsequently.

Prospects and Future Plans

The Group will continue to maintain its own advantage as an independent property management company and compete with counterparts in the market by its high quality service and operational efficiency. The Group will actively establish stable partnership with leading property developers in all regions and explore potential projects under development. The Group will strive to develop new business relationships from the existing customer base and own network in order to provide strong organic growth to the Group. The Group also targets to expand its portfolio of customers by pursuing properties which have owners' association been established. Furthermore, when right opportunities arise, the Group will accelerate its expansion by expanding its business scope and coverage in China by means of acquisitions.

As disclosed in the Company's announcement dated 29 June 2017, pursuant to the terms of the Joint Venture Agreement entered between the Group and the Vendors, the Group will acquire the remaining interests in Yongcheng in four tranches of 7.5% each at a price of RMB22.5 million for each of the subsequent acquisition. Since the net profit of Yongcheng for the financial year of 2016 has met the profit guarantee provision provided to the Group, the Group entered into an acquisition agreement to purchase a further 7.5% of the existing registered capital of Yongcheng at a total consideration of RMB22.5 million (the "Further Acquisition") on 29 June 2017.

Upon completion of the Further Acquisition, the Group holds 77.5% of the registered capital of Yongcheng in which Yongcheng remains as a non wholly-owned subsidiary of the Company and its financial results will continue to be consolidated into the consolidated financial statements of the Company. The directors are of the view that the Group's increase in shareholding in Yongcheng will further consolidate the profit base and provide a stable return of investments to the shareholders.

FINANCIAL PERFORMANCE REVIEW

Revenue

During the year ended 31 December 2017, the Group recorded revenue of RMB977.6 million, representing an increase of 53.9% over the year 2016.

Increase in the Group's revenue was primarily attributable to the growth in property management business revenue from RMB626.9 million for the year ended 31 December 2016 to RMB977.3 million for the year ended 31 December 2017 and represented 55.9% increase over the year 2016.

Breakdown of Revenue by business line and services

	For the year ended 31 December			
	2017	2016	**Change**	
	RMB'000	*RMB'000*	*RMB'000*	*%*
Property management business				
– Property management services	**910,941**	559,372	351,569	62.9
– Sale assistance services	**43,187**	55,731	(12,544)	(22.5)
– Other services and sales of goods	**23,136**	11,779	11,357	96.4
Online to offline business	**288**	8,264	(7,976)	(96.5)
	977,552	635,146	342,406	53.9

Property management business

The Group's property management business includes the provision of property management services, sales assistance services and other services and sale of goods. Details of analysis of each service are as follows:

Property management services

Revenue from property management services increased by RMB351.6 million or 62.9% over 2016 primarily due to (i) organic growth in the Group's existing property management services business as a result of increase in the delivered contracted GFA by 7.8 million sq.m.; and (ii) additional revenue attributable to the delivered contracted GFA of 20.2 million sq.m. bringing in to the Group through Yongcheng.

Sales assistance services

Revenue from the sale assistance services for the year ended 31 December 2017 was RMB43.2 million, comparing to RMB55.7 million in 2016, representing a decrease of RMB12.5 million, or 22.5%. The decrease in revenue from the sales assistance services was due to the decrease in the number of projects from 72 in 2016 to 66 in 2017 and the decrease in average revenue of each project from approximately RMB774,000 for the year ended 31 December 2016 to approximately RMB654,000 for the year ended 31 December 2017.

Other services and sales of goods

Revenue from other services and sales of goods during the year ended 31 December 2017 was RMB23.1 million (2016: RMB11.8 million). This service primarily consists of the provision of consulting services, engineering and catering services, and the sales of engineering spare parts. The increase in revenue of this service was mainly due to revenue received or receivable from Yongcheng which has been newly acquired since October 2016.

Online to offline business

Revenue from the community O2O platform for the year ended 31 December 2017 was RMB0.3 million, comparing to RMB8.3 million in 2016, represented a decrease of RMB8.0 million or 96.5%. Revenue from the corresponding period last year was mainly generated from the provision of community e-commerce services for the residents through the Group's community O2O platform which the revenue generated from this revenue model decreased significantly after the shift in strategic direction of this business line since the fourth quarter of 2016.

Cost of Sales and Services

The Group's cost of sales and services for property management business primarily comprise (i) sub-contracting costs, representing the expenses paid to sub-contractors for various services under the property management and sales assistance business lines; (ii) staff costs; (iii) depreciation expenses associated with equipment and property used in providing services; and (iv) costs of other services and sale of goods such as salaries cost of the technicians in the provision of elevator engineering services; costs of the spare parts sold and operating costs in running the catering services.

Cost of sales and services for the property management and sales assistance services increased by 47.3% from RMB450.9 million for the year ended 31 December 2016 to approximately RMB664.0 million for the year ended 31 December 2017. The increase was primarily due to the growth of business and the corresponding increase in the staff costs and sub-contracting costs. The increase in staff costs was attributable to (i) increase in the number of employees that the Group employed directly after the acquisition of Yongcheng; and (ii) increase in the average salary of the Group's employees. The increase in sub-contracting costs was attributable to the expansion of the Group's business.

Costs of other services and sales of goods for the year ended 31 December 2017 was RMB16.6 million (2016: RMB6.5 million), which primarily consisted of (i) salaries cost of the technicians in the provision of elevator engineering services; (ii) costs of the spare parts sold; and (iii) operating costs in running the catering services in 2017.

Cost of sales and services for community O2O platform for the year ended 31 December 2017 was RMB0.78 million (2016: RMB21.1 million), such costs decreased significantly for the year ended 31 December 2017 after the change in strategic directions of this revenue generating model since the fourth quarter 2016 and the outsourcing of the maintenance and operation services of the Group's O2O platform to a third party in April 2017. The outsourcing agreement has been terminated on 15 September 2017.

Gross Profit/(Loss) and Gross Profit/(Loss) Margin

The tables below sets forth the Group's gross profit/(loss) and gross profit/(loss) margins by services for the years indicated:

	For the year ended 31 December			
	2017		2016	
	RMB'000	***% of revenue***	*RMB'000*	*% of revenue*
Property management business				
– Property management services	**274,127**	**30.1**	139,451	24.9
– Sale assistance services	**15,979**	**37.0**	24,790	44.5
– Other services and sales of goods	**6,521**	**28.2**	5,329	45.2
Online to offline business	**210**	**72.9**	(12,832)	(155.3)
Overall	**296,837**	**30.4**	156,738	24.7

The Group's gross profit for the year ended 31 December 2017 was RMB296.8 million, comparing to RMB156.7 million in 2016, represented an increase of RMB140.1 million, or 89.4%. The Group's overall gross profit margin increased from 24.7% for the year ended 31 December 2016 to 30.4% in 2017. The Group's gross profit for the property management business line for the year ended 31 December 2017 was RMB296.6 million, comparing to RMB169.6 million for the year ended 31 December 2016, represented an increase of RMB127.0 million, or 74.9%. The Group's gross profit margin for the property management business line increase from 27% for the year ended 31 December 2016 to 30.4% for the year ended 31 December 2017 as a result of (i) increased average price per residential revenue-bearing GFA from RMB1.76/sq.m./month as of 31 December 2016 to RMB1.81/sq.m./month as of 31 December 2017, (ii) increased economies of scale as multiple phases of the same properties were delivered and became revenue-bearing; (iii) termination of property management services to certain residential properties as the profitability of these properties did not meet the Group's expectations; (iv) the Group's selection of and engagement with new projects with higher margins; and (v) the effect of value-added tax in lien of business tax.

Other income and gains

The Group's other income and gains for the year ended 31 December 2017 was RMB20.6 million, comparing to RMB23.3 million in 2016, respecting a decrease of RMB2.7 million, or 11.6%. The decrease was mainly due to the net effect of the decrease in net exchange gain of RMB12.1 million in the corresponding period which has been recorded as a net exchange loss in other expenses for the year ended 31 December 2017, and the increase in the unconditional subsidies from the government of RMB8.1 million and rental income from investment properties of RMB1.8 million.

Selling and marketing expenses

The Group's selling and marketing expenses for the year ended 31 December 2017 was RMB6.4 million, comparing to RMB29.5 million in 2016, representing a decrease of RMB23.1million, or 78.3%. The decrease was primarily due to the decrease in business development, marketing and promotion expenses of RMB23.3 million incurred for the online to offline business after the shift in strategic direction of this business line since the fourth quarter of 2016.

Administrative Expenses

The Group's administrative expenses for the year ended 31 December 2017 was RMB115.1 million, comparing to RMB99.7 million in 2016, representing an increase of RMB15.4 million, or 15.5%. The increase was primarily due to the net effect of (i) the increase in amortisation expenses of intangible assets of RMB13.8 million; (ii) the increase in general administrative expenses of RMB24.6 million after the acquisition of Yongcheng in October 2016; (iii) the increase of share award expenses of RMB5.8 million; (iv) the reversed of share based payment expenses of RMB3.2 million; (v) the reversal of share-based payment expense of a subsidiary of RMB13.0 million for the year ended 31 December 2017; (vi) decrease in administrative expenses of RMB12.6 million associated with the operation of community O2O platform; and (vii) expansion of the Group's business scale.

Other Expenses

The Group's other expenses for the year ended 31 December 2017 was RMB39.8 million (2016: RMB24.1 million). The expenses was primarily comprised of (i) provision for impairment of trade receivables and other receivables of RMB29.5 million (2016: RMB13.4 million) and (ii) net exchange loss of RMB8.7 million which has been recorded as a net exchange gain of RMB12.1 million in other income and gains in 2016.

Finance Costs

The Group's finance costs increased from RMB4.7 million for the year ended 31 December 2016 to RMB9.5 million for the year ended 31 December 2017. The increase was primarily due to the net effect of the (i) increase in interest expense of RMB2.3 million for bank borrowings; (ii) increase in interest expenses imputed on consideration payable of RMB5.1 million; and (iii) the reversal of imputed interest expenses on non-current liabilities for cash-settled share-based payments of RMB1.4 million which has been included as a credit in the finance cost.

Income Tax Expenses

The Group's income tax expense for the year ended 31 December 2017 was RMB49.9 million, comparing to RMB27.6 million in 2016, representing an increase of RMB22.3 million, or 80.8%. The Group's effective tax rate decrease from 113.8% for the year ended 31 December 2016 to 33.5% in 2017 since the losses in the O2O business incurred during 2016 were not utilised for tax purposes.

Trade and Bills Receivables

Trade and bills receivables mainly arose from management and service income from property management services, income from sales assistance service and income from other services and sales of goods.

As of 31 December 2017, total trade and bills receivables of the Group amounted to approximately RMB190.9 million, representing an increase of approximately RMB31.5 million compared to approximately RMB159.4 million as at 31 December 2016. The increase was attributable to the expansion of the scale of the Group's business.

The Group's trade receivables turnover days for the year ended 31 December 2017 was 65 days (year ended 31 December 2016: 66 days).

Trade Payables and Other Payables and accruals

Trade payables primarily comprise payables to sub-contractors of the Group's property management services. Trade payables increased from approximately RMB36.6 million as of 31 December 2016 to approximately RMB45.0 million as of 31 December 2017. This was primarily due to the growth of the Group's property management services business.

Other payables and accruals primarily comprise receipts on behalf of community, residents for utilities, receipts in advances, accruals and deposits received. Other payables and accruals increased from approximately RMB354.1 million as of 31 December 2016 to approximately RMB386.0 million as of 31 December 2017, primarily attributable to an increase of RMB46.8 million in receipts on behalf of community residents for utilities.

Deferred Taxation

As of 31 December 2017 and 2016, the deferred tax asset recognised was mainly attributable to the allowance of doubtful debt of RMB23.4 million and RMB16.4 million, respectively.

Liquidity, Financial Resources and Capital Structure

The Group maintains a strong and healthy financial position. The Group's principal sources of funds to finance the working capital, capital expenditure and other capital requirements were internally generated by cash flows and bank loans. As of 31 December 2017, net working capital (calculated as current assets less current liabilities) was RMB226.2 million, representing an increase of RMB35.9 million from RMB190.3 million as of 31 December 2016. The current ratios (calculated as current assets/current liabilities) are 1.4 times as of 31 December 2017 (2016: 1.4 times).

As of 31 December 2017, the Group had bank borrowings denominated in RMB of RMB23.0 million (2016: RMB25.3 million) which was secured by the investment properties of the Group (2016: RMB2.3 million). Bank borrowings of RMB23.0 million (2016: 25.3 million) as of 31 December 2017 were fixed-rate. In addition, the Group had an unsecured bank borrowing amounting to RMB78.0 million (2016: 103.6 million) which was variable-rate and denominated in HK$ as of 31 December 2017.

The Group principally focused on the operation in the PRC. Except for the cash, bank deposits and bank borrowings denominated in foreign currencies, the Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the year ended 31 December 2017, despite the acceleration of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

Gearing Ratio

The gearing ratio is defined as total borrowings net of pledged bank deposits, amounts due to non-controlling equity holders of a subsidiary, due to a joint ventures and bank balances and cash divided by total equity. As of 31 December 2017, the Group was in a strong financial position with a net cash position amounting to RMB377.8 million (2016: RMB291.7 million). Accordingly, no gearing ratio is presented.

Pledge of Assets

At 31 December 2017, investment properties of RMB91.4 million (2016: 74.4 million) were pledged to secure certain banking facilities granted to the Group.

Contingent Liabilities

The Group had no material contingent liabilities as of 31 December 2017.

Employees and Remuneration Policies

As of 31 December 2017, the Group had approximately 7,300 (2016: 6,700) employees. In order to enhance the morale and productivity of employees, employees are remunerated based on their performance, experience and prevailing industry practices. Compensation policies and packages of management staff and functional heads are being reviewed on a yearly basis. In addition to basic salary, performance related salary may also be awarded to employees based on internal performance evaluation. Moreover, the Company adopted a share option scheme in April 2015 and share award scheme in June 2017 in order to retain elite personnel to stay with the Group and to provide incentives for their contribution to the Group.

The Group also invests in continuing education and training programmes for management staff and other employees with a view to upgrading their skills and knowledge. These training courses comprise internal courses run by the management of the Group and external courses provided by professional trainers and range from technical training for butlers to financial and administrative trainings for management staff.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date on 29 January 2018, the Group entered into an equity purchase agreement with an individual to acquire certain entities engaging in the business of provision of cleaning and landscaping services for communities at an aggregate consideration of RMB25,000,000. The acquisition has not been completed as at the date of this report and is subject to fulfillment of conditions.

At 27 March 2018, the board of directors has resolved to recommend the payment of a final dividend of HK5.0 cents per share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on 4 June 2018. Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM"), the final dividend is expected to be payable on or about 15 June 2018. The aggregate amount shall be paid out of the Company's share premium account if the payment of the dividend is approved by the shareholders at the AGM

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

Save as disclosed above in this Announcement, the Group had no material acquisition or disposal of subsidiaries or associates during the year ended 31 December 2017.

At 31 December 2017, the Group has no specific plan for major investment or acquisition for major capital assets or other business. However, the Group will continue to identify new opportunities for business development.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK5.0 cents per share for the year ended 31 December 2017 (2016: nil) to the shareholders whose names appear on the register of members of the Company on 4 June 2018, making the total dividend payment of approximately HK$40.6 million. Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM"), the final dividend is expected to be payable on or about 15 June 2018. The aggregate amount shall be paid out of the Company's share premium account if the payment of the dividend is approved by the shareholders at the AGM.

ANNUAL GENERAL MEETING

The AGM will be held on 25 May 2018 and a notice convening the AGM will be published and dispatched in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held on Friday, 25 May 2018. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Friday, 18 May 2018.

To ascertain the entitlement to the proposed final dividend for the year ended 31 December 2017, the register of members of the Company will be closed from Thursday, 31 May 2018 to Monday, 4 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 December 2017, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Wednesday, 30 May 2018.

CORPORATE GOVERNANCE

The Board and the management of the Group are committed to the maintenance of good corporate governance practices and procedures. The Company has adopted the code provisions set out in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules as its code of corporate governance. For the year ended 31 December 2017, the Board is of the view that the Company has complied with all code provisions set out in the CG Code save and except for the following code provisions:

Code Provision A.2.1 of the CG Code requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has appointed Mr. Liu Jian as both the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of the Chairman and Chief Executive Officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the senior management and Board, which comprises experienced and high-calibre individuals. The Board currently comprises four

Executive Directors (including Mr. Liu Jian), three Non-executive Directors and four Independent Non-executive Directors and therefore has a fairly strong independence element in its composition.

Code Provision A.2.7 of the CG Code requires that the chairman should at least annually hold meetings with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present. Although the chairman did not hold a meeting with the Non-executive Directors during the year ended 31 December 2017, the Company has set up good communication channel that the Company Secretary shall gather any concerns and/or questions raised by the Non-executive Directors and report to the chairman and set up follow-up meetings, whenever necessary, in due course.

Code Provision A.4.1 of the CG Code requires that Non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company are not appointed for a specific term. They were, however, subject to the requirement of retirement and re-election at least once every three years at the annual general meetings of the Company in accordance with the relevant provisions of the Company's articles of association. As such, the Company considers that sufficient measures were taken to ensure that the Company's corporate governance practices were no less exacting than those in the code provisions of the CG Code.

Code Provision E.1.2 of the CG Code requires that the chairman of the board should attend the annual general meeting. The annual general meeting was held on 26 May 2017. Mr. Liu Jian, an executive director and the chairman of the board, was unable to attend the annual general meeting due to other important engagement at that time. Ms. Chen Zhuo, an executive director, has been elected as the chairman of the annual general meeting. Ms. Chen and the chairmen of all the Board committees (or in their absence, other members of the respective committees) and the external auditor were available at the annual general meeting to answer shareholders' questions.

REVIEW OF ACCOUNTS

The audit committee of the Board ("Audit Committee") has been established with written terms of reference to, among other matters, review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Chan Wai Cheung, Admiral, Mr. Zhang Weilun and Mr. Chan Ka Leung, Kevin. Mr. Chan Wai Cheung, Admiral is the chairman of the Audit Committee. The annual results of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee.

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

During the year ended 31 December 2017, no shares were repurchased and 372,000 shares that were repurchased in 2016 were cancelled in 2017.

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 to the Listing Rules as its code of conduct for Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2017.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.gdzawy.com). The annual report for the year ended 31 December 2017 of the Company contains all the information required by the Listing Rules, which will be despatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks to every shareholder and business partner for their constant support and trust of the Group, and also to every employee for their hard work and contribution to the Group over last year. I look forward to achieving greater success hand in hand with the Group in the coming year.

By order of the Board
Zhong Ao Home Group Limited
LIU Jian
Chairman and Chief Executive Officer

Hong Kong, 27 March 2018

As at the date of this announcement, our executive directors are Mr. Liu Jian, Ms. Chen Zhuo, Mr. Liang Bing, Mr. Long Weimin, our non-executive directors are Mr. Wei Zhe, Ms. Wu Qimin, Mr. Zheng Dong, and our independent non-executive directors are Mr. Zhang Weilun, Mr. Chan Wai Cheung, Admiral, Mr. Chan Ka Leung, Kevin, and Mr. Huang Anxin.