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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)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

	Six months ended 30 June		Change
	2018	2017	
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Revenue	498,033	475,543	4.7%
Gross profit	152,132	144,472	5.3%
Net Profit	52,340	49,774	5.2%
Profit attributable to owners of the parent	47,118	45,548	3.4%
Gross profit margin (%)	30.5%	30.4%	0.1pp
Net profit margin (%)	10.5%	10.5%	Nil
Earnings per share attributable to ordinary equity holders of the parent			
— Basic and diluted (RMB)	0.058	0.057	1.8%

The board (the “Board”) of directors (the “Directors”) of Zhong Ao Home Group Limited (the “Company” or “Zhong Ao”) is pleased to announce the unaudited financial information of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017, as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		For the six months ended 30 June	
	<i>Notes</i>	2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE		498,033	475,543
Cost of sales and services		(345,901)	(331,071)
GROSS PROFIT		152,132	144,472
Other income and gains		19,102	8,441
Selling and marketing expenses		(2,512)	(3,255)
Administrative expenses		(76,279)	(48,618)
Other expenses		(22,841)	(22,051)
Operating profit		69,602	78,989
Share of profits and losses of:			
Joint ventures		2,808	2,685
An associate		162	(39)
Finance costs		3,726	(3,723)
PROFIT BEFORE TAX	4	76,298	77,912
Income tax expenses	5	(23,958)	(28,138)
PROFIT FOR THE PERIOD		52,340	49,774
Attributable to:			
Owners of the parent		47,118	45,548
Non-controlling interests		5,222	4,226
		52,340	49,774
PROFIT AND TOTAL COMPREHENSIVE INCOME, NET OF TAX, FOR THE PERIOD		52,340	49,774
Attributable to:			
Owners of the parent		47,118	45,548
Non-controlling interests		5,222	4,226
		52,340	49,774
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic and diluted (RMB)	7	0.058	0.057

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

30 June 2018

		30 June 2018	31 December 2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property and equipment		38,727	35,287
Investment properties	8	164,811	163,592
Prepayments for acquisition of properties	9	14,837	14,738
Investments in joint ventures		5,553	5,020
Investment in an associate		2,851	2,689
Goodwill		128,196	105,560
Intangible assets		87,725	94,836
Long-term deposits		2,294	2,267
Financial assets designated as at fair value through profit or loss		2,365	–
Deferred tax assets		36,966	24,530
Total non-current assets		484,325	448,519
CURRENT ASSETS			
Inventories		1,194	824
Trade and bills receivables	10	280,009	190,932
Prepayments, deposits and other receivables		130,044	112,290
Financial assets designated as at fair value through profit or loss		32,000	–
Cash and cash equivalents		315,155	483,806
Total current assets		758,402	787,852

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (Continued)**

30 June 2018

		30 June 2018	31 December 2017
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
CURRENT LIABILITIES			
Trade payables	11	37,117	44,965
Contract liabilities		103,196	–
Other payables and accruals	12	323,706	385,962
Interest-bearing bank borrowings	13	39,657	42,276
Tax payables		86,892	88,439
Total current liabilities		590,568	561,642
NET CURRENT ASSETS		167,834	226,210
TOTAL ASSETS LESS CURRENT LIABILITIES		652,159	674,729
NON-CURRENT LIABILITIES			
Deferred tax liabilities		24,030	26,059
Interest-bearing bank borrowings	13	60,020	58,693
Other long-term payable	14	17,140	43,284
Total non-current liabilities		101,190	128,036
NET ASSETS		550,969	546,693
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital		6,689	6,619
Reserves		506,530	485,760
		513,219	492,379
Non-controlling interests		37,750	54,314
TOTAL EQUITY		550,969	546,693

NOTES TO UNAUDITED INTERIM FINANCIAL INFORMATION

30 June 2018

1. BASIS OF PREPARATION

The unaudited interim financial information for the six months ended 30 June 2018 (the “Interim Financial Information”) has been prepared in accordance with 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 financial statements for the year ended 31 December 2017.

Basis of consolidation

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 information of the subsidiaries is 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 three elements of control described in the accounting policy for subsidiaries in the Group’s audited financial statements for the year ended 31 December 2017. A change in the ownership interests 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 interests 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 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Interim Financial Information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new and revised standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standards ("HKASs") and interpretations) that are relevant to the Group's operation for the preparation of the Group's interim condensed consolidated financial statements:

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
Annual improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by HKAS 34, the nature and effect of these changes are disclosed below. Other than as further explained below, the directors do not anticipate that the application of the new and revised HKFRSs above will have a material effect on these interim condensed consolidated financial statements and the disclosure.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using a modified retrospective method of adoption. The effect of adopting HKFRS 15 is as follows:

- The comparative information for each of the primary financial statements would be presented based on the requirements of HKAS 11, HKAS 18 and related Interpretations and;
- As required for the interim condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 3A for the disclosure on disaggregated revenue. Disclosures for the comparative period in the notes to the financial statements would also follow the requirements of HKAS 11, HKAS 18 and related Interpretations. As a result, the disclosure of disaggregated revenue in note 3 would not include comparative information under HKFRS 15.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

(a) *Classification and measurement*

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), or amortised cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and bills receivables and other receivables.
- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's quoted equity securities were classified as available-for-sale (AFS) financial assets.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

(b) *Impairment*

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

For trade and bills receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of HKFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in decreases in trade and bills receivables, other receivables, prepayments, deposits and other receivables and retained earnings amounting to RMB12,225,000, RMB13,196,000 and RMB19,066,000, respectively.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Other adjustments

In addition to the adjustments described above, upon adoption of HKFRS 9, other items of the primary financial statements such as deferred taxes, retained earnings and non-controlling interest were adjusted as necessary.

The Group has applied HKFRS 9 and HKFRS 15 from 1 January 2018. The Group did not adjust comparative information and recognised transition adjustments against the opening balance of equity at 1 January 2018. The impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2017:

	31 December 2017 RMB'000 (Audited)	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 RMB'000 (Adjusted)
Current assets				
Trade and bills receivables	190,932	–	(12,225)	178,707
Prepayments, deposits and other receivables	112,290	–	(13,196)	99,094
Non-Current assets				
Deferred tax assets	24,530	–	6,355	30,885
Current liabilities				
Other payables and accruals	385,962	(62,738)	–	323,224
Contract liabilities	–	62,738	–	62,738
Equity attributable to owners of the parent	492,379	–	(15,990)	476,389
Non-controlling interests	54,314	–	(3,076)	51,238

HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to HKFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The HKICPA issued amendments to HKFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to HKFRS 4 *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, HKFRS 9, before implementing HKFRS 17 *Insurance Contracts*, which replaces HKFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying HKFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to HKAS 28 *Investments in Associates and Joint Ventures* — *Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* — *Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3–E7 of HKFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

	For the six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Rendering of service	492,684	472,520
Sale of goods	5,349	3,023
	<u>498,033</u>	<u>475,543</u>
Timing of revenue recognition		
Revenue recognised over time	465,400	452,427
Revenue recognised at a point in time	32,633	23,116
	<u>498,033</u>	<u>475,543</u>

The Group's non-current assets are all located in Mainland China.

The disaggregation of the Group's revenue based on the geographical region for the six months ended 30 June 2018 is included in note 3B.

3B. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the geographical zones of services rendered in the People's Republic of China (the "PRC") as follows:

- (a) Southern Region includes the cities of Hong Kong, Guangzhou, Nanning, Sanya, Chengmai, Huizhou, Wuzhou, Foshan, Zhongshan, Jiangmen, Qingyuan, Zhaoqing, Guilin, Zhuhai, Haikou, Cenxi and Wenchang; and
- (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, Bazhou, Xiaoshan, Changshu, Yancheng, Changsha, Changzhou, Yangzhou, Táizhou, Tàizhou, Chuzhou, Chizhou, Huai'an, Wenzhou and Yuyao; and
- (c) Northern Region includes the cities of Baotou, Ordos, Huhhot, Dalian, Beijing, Tianjin, Tangshan and Qingdao.

3B. OPERATING SEGMENT INFORMATION (Continued)

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, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that changes in fair value of investment properties, bank interest income, investment income, share of profits of joint ventures, share of profits/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.

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

Operating segments

The following tables present revenue, profit and expenditure information for the Group's operating segments for the six-month periods from 1 January to 30 June 2018 and 2017:

For the six months ended 30 June 2018 (Unaudited)	Southern Region RMB'000	Eastern and Central Region RMB'000	Northern Region RMB'000	Total RMB'000
Segment revenue	123,787	346,414	27,832	498,033
Segment results	29,514	61,943	4,323	95,780
<i>Reconciliation:</i>				
Bank interest income				1,510
Investment income				1,443
Changes in fair value of investment properties				1,219
Net foreign exchange gains				1,690
Corporate expenses				(26,379)
Share-based payment expense of the Company				(5,661)
Share of profits of joint ventures				2,808
Share of profits of an associate				162
Finance costs				3,726
Profit before tax				76,298

3B. OPERATING SEGMENT INFORMATION (Continued)

Operating segments (continued)

For the six months ended 30 June 2017 (Unaudited)	Southern Region <i>RMB'000</i>	Eastern and Central Region <i>RMB'000</i>	Northern Region <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	102,860	339,726	32,957	475,543
Segment results	21,713	58,345	3,731	83,789
<i>Reconciliation:</i>				
Bank interest income				939
Investment income				395
Changes in fair value of investment properties				1,596
Net foreign exchange losses				(2,360)
Corporate expenses				(18,130)
Share-based payment expense of the Company				(221)
Reversal of share-based payment expense of a subsidiary				12,981
Share of profits of joint ventures				2,685
Share of losses of an associate				(39)
Finance costs				(3,723)
Profit before tax				77,912

The Group is mainly engaged in property management business, sales assistance business, 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:

For the six months ended 30 June 2018 (Unaudited)	Property management business <i>RMB'000</i> (Note a)	Sales assistance business <i>RMB'000</i> (Note b)	Online to offline business <i>RMB'000</i> (Note c)	Other businesses <i>RMB'000</i> (Note d)	Total <i>RMB'000</i>
Segment revenue	463,126	19,689	–	15,218	498,033
Segment results	84,621	8,362	(507)	3,304	95,780
For the six months ended 30 June 2017 (Unaudited)	Property management business <i>RMB'000</i> (Note a)	Sales assistance business <i>RMB'000</i> (Note b)	Online to offline business <i>RMB'000</i> (Note c)	Other businesses <i>RMB'000</i> (Note d)	Total <i>RMB'000</i>
Segment revenue	438,501	23,799	288	12,955	475,543
Segment results	77,232	11,834	(3,896)	(1,381)	83,789

Notes:

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

3B. OPERATING SEGMENT INFORMATION (Continued)

Operating segments (continued)

- (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 for their model houses and sales centres and the 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 of 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. PROFIT BEFORE TAX

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

	<i>Notes</i>	For the six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cost of services provided		341,960	330,235
Cost of goods sold		3,941	836
Employee benefit expense (excluding compensation to key management personnel)			
Salaries and other benefits		170,561	148,887
Retirement benefit scheme contributions		8,398	9,600
Share-based payment expenses of the Company		4,233	892
		183,192	159,379
Depreciation		5,227	5,289
Amortisation of intangible assets		7,177	9,703
Impairment of intangible assets		–	219
Impairment of trade and bills receivables	10	20,019	18,039
Impairment of prepayments, deposits and other receivables		1,624	928
Changes in fair value of investment properties	8	(1,219)	(1,596)
Gross rental income		(2,340)	(1,131)
Minimum lease payments under operating leases		3,917	3,621
Foreign exchange (gains)/losses		(1,690)	2,360
Bank interest income		(1,510)	(939)
Loss on disposal of items of property and equipment		17	37

5. INCOME TAX

Provision for PRC corporate income tax ("CIT") has been made at the applicable income tax rate of 25% for the six months ended 30 June 2018 (six months ended 30 June 2017: 25%) on the assessable profits of the Group's subsidiaries in Mainland China.

The Company incorporated in the Cayman Islands and the Company's subsidiaries incorporated in British Virgin Islands are not subject to corporate income tax as they do not have a place of business (other than a registered office) or carry on any business in the Cayman Islands and British Virgin Islands.

Hong Kong profits were subject to profits tax at the rate of 16.5% (six months ended 30 June 2017: 16.5%) and no provision for Hong Kong profits tax has been made for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

5. INCOME TAX (Continued)

Income tax in the interim condensed consolidated statement of profit or loss and other comprehensive income represents:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Mainland China	32,068	30,705
Current — Hong Kong	—	—
Charge for the period	32,068	30,705
Deferred tax	32,068 (8,110)	30,705 (2,567)
Total tax charge for the period	23,958	28,138

6. DIVIDENDS

During the six months ended 30 June 2018, a dividend of HK5.0 cents per share in respect of the year ended 31 December 2017 was declared by the directors of the Company and approved in the Company's annual general meeting on 25 May 2018. Dividends amounting to RMB33,984,000 were paid during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 June 2018, and the weighted average number of ordinary shares of 809,965,000 (six months ended 30 June 2017: 794,193,000) in issue during the period.

The calculation of the basic earnings per share amount is based on:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	47,118	45,548
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	809,965,000	794,193,000

The computation of diluted earnings per share for the six months ended 30 June 2018 and 2017 has not included the exercise of the share options of the Company since the exercise price of the share options was higher than the average market price of the Company's shares during the periods ended 30 June 2018 and 2017.

8. INVESTMENT PROPERTIES

	<i>RMB'000</i> (Unaudited)
At 1 January 2018	163,592
Net gain from fair value adjustments (<i>note 4</i>)	<u>1,219</u>
At 30 June 2018	<u><u>164,811</u></u>

Certain investment properties are leased to third parties under operating leases.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professionally qualified valuers, using the market approach, as at 30 June 2018. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The Group's management had discussions with the valuer on the valuation assumptions and valuation results on a regular basis when the valuation is performed.

Included in the completed investment properties were certain buildings with a carrying value of RMB450,000 (31 December 2017: RMB450,000) of which the property certificates have not been obtained as at 30 June 2018.

The Group's investment properties with a carrying value of RMB91,748,000 (31 December 2017: RMB91,410,000) were pledged to secure general banking facilities granted to the Group as at 30 June 2018 (*note 13*).

9. PREPAYMENTS FOR ACQUISITION OF PROPERTIES

As at 30 June 2018, the Group had deposits of RMB14,837,000 (31 December 2017: RMB14,738,000) in relation to the acquisition of properties situated in Mainland China from property developers. No acquisition of certain properties was completed during the current period (six months ended 30 June 2017: RMB3,740,000) and no acquired property was transferred to investment properties, and property and equipment, respectively.

10. TRADE AND BILLS RECEIVABLES

	30 June 2018 <i>RMB'000</i> (Unaudited)	31 December 2017 <i>RMB'000</i> (Audited)
Trade and bills receivables	380,205	258,884
Less: provision for doubtful debts	<u>(100,196)</u>	<u>(67,952)</u>
	<u><u>280,009</u></u>	<u><u>190,932</u></u>

Trade and bills receivables mainly arise from the provision of property management service. 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 and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

10. TRADE AND BILLS RECEIVABLES (Continued)

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the date of the demand note, is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 30 days	63,254	46,637
Over 30 days and within 90 days	71,106	35,014
Over 90 days and within 180 days	97,934	38,250
Over 180 days and within 365 days	53,155	56,243
Over one year	94,756	82,740
	380,205	258,884
Less: Provision	(100,196)	(67,952)
	280,009	190,932

The movements in provision for impairment of trade and bills receivables are as follows:

	<i>RMB'000 (Unaudited)</i>
At 1 January 2018	
As previously reported	67,952
Change in accounting policy	12,225
As adjusted	80,177
Impairment losses recognised (<i>note 4</i>)	20,019
At 30 June 2018	100,196

The carrying amount of the trade and bills receivables approximates to their fair value due to their relatively short maturity terms.

11. TRADE PAYABLES

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Less than one year	35,938	43,361
Over one year	1,179	1,604
	37,117	44,965

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.

12. OTHER PAYABLES AND ACCRUALS

	30 June 2018 <i>RMB'000</i> (Unaudited)	31 December 2017 <i>RMB'000</i> (Audited)
Receipts on behalf of community residents for utilities	148,293	128,671
Accruals and other payables	66,063	70,634
Deposits received	59,215	63,017
Other payable for an option (<i>Note 14</i>)	19,882	22,155
Receipts in advance	11,287	82,572
Amounts due to non-controlling equity holders of a subsidiary	5,033	5,033
Other tax payables	13,933	13,880
	<u>323,706</u>	<u>385,962</u>

As at 30 June 2018, the Group's other payables and accruals included an amount due to non-controlling equity holders of a subsidiary which is unsecured, interest-free and repayable on demand.

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

13. INTEREST-BEARING BANK BORROWINGS

	30 June 2018 <i>RMB'000</i> (Unaudited)	31 December 2017 <i>RMB'000</i> (Audited)
Unsecured bank borrowing	79,677	77,969
Secured bank borrowings	20,000	23,000
	<u>99,677</u>	<u>100,969</u>
Carrying amounts repayable:		
Within one year	39,657	42,276
Over one year	60,020	58,693
	<u>99,677</u>	<u>100,969</u>

13. INTEREST-BEARING BANK BORROWINGS (Continued)

The Group's bank loans were secured by the pledges of the Group's assets with carrying values at 30 June 2018 and 31 December 2017 as follows:

		30 June 2018	31 December 2017
	<i>Note</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Audited)
Investment properties	8	91,748	91,410

The effective interest rates of the Group's bank borrowings are as follows:

30 June 2018	4.45%–5.44%
31 December 2017	3.81%–4.35%

As at 30 June 2018, all the Group's borrowings are denominated in RMB except that unsecured borrowings amounting to RMB79,677,000 (31 December 2017: RMB77,969,000) were denominated in HK\$.

The bank borrowing balances of the Group bore interest at floating rates, except for bank and other borrowings of RMB20,000,000 at 30 June 2018 (31 December 2017: RMB23,000,000) that bore interest at fixed rates.

The carrying amounts of the interest-bearing bank borrowings approximate to their fair values.

14. OTHER LONG-TERM PAYABLE

		30 June 2018	31 December 2017
	<i>Note</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Audited)
Equity interest redemption option granted to non-controlling equity holders of a subsidiary		37,022	65,439
Less: Current portion	12	(19,882)	(22,155)
Non-current portion		17,140	43,284

On 26 July 2016, the Group entered into an equity transfer agreement and a joint venture agreement with 10 individual equity holders (the "Vendors") to acquire a 70% equity interest in 浙江永成物業管理有限公司 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 interest in Zhejiang Yongcheng was completed in October 2016. The remaining 30% non-controlling interest in Zhejiang Yongcheng had certain put rights to require the Group to acquire from the Vendors the remaining 30% equity interest in Zhejiang Yongcheng in four tranches prior to year 2020. The considerations are contingent and will be adjusted based on the future financial performance of Zhejiang Yongcheng and capped at RMB22,500,000 for each tranche. Since the Group does not have present ownership interest on the 15% remaining equity interest in Zhejiang Yongcheng before the non-controlling equity holders exercise the buy-out option, the Group recorded the 15% remaining equity interest in Zhejiang Yongcheng owned by the Vendors as the non-controlling interest in the Interim Financial Information. The buy-out option amount was classified as a financial liability at 30 June 2018 and 31 December 2017 and the changes in the amount of the option were recognised in profit or loss. This equity interest redemption option granted to non-controlling equity holders of a subsidiary is a financial liability and separated into current and non-current portion ("Other payable for an option").

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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 at 30 June 2018, the Group had a total contracted gross floor area (“GFA”) of 68.1 million square meters (“sq.m.”), where it was contracted to manage 517 properties across 44 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 sale 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 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 sale of goods

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

Business Review

Property Management Services

As at 30 June 2018, the Group had expanded its presence to 44 cities in China where it was contracted to manage a total of 517 residential properties and non-residential premises such as commercial or government buildings with an aggregate contracted GFA of 68.1 million sq.m. This represented an increase of 2.1% compared to the aggregate contracted GFA of 66.7 million sq.m. as at 31 December 2017. In relation to the delivered GFA of 55.9 million sq.m. as at 30 June 2018, the increase represented a growth of 2.4% compared to the delivered GFA of 54.6 million sq.m. as at 31 December 2017.

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 maximize its economies of scale.

The table below sets forth the revenue breakdown of different geographic areas where the Group has established presence for the six months ended 30 June:

	2018 RMB'000	2017 RMB'000
Eastern and Central China	346,414	339,726
Southern China	123,787	102,860
Northern China	27,832	32,957
Total	498,033	475,543

The list below illustrates the cities in which properties the Group was contracted to manage were located and number of projects in each city as at 30 June 2018.

Eastern and Central China		Southern China		Northern China	
1.	Chizhou (1)	23.	Cenxi (3)	40.	Baoding (1)
2.	Chongqing (1)	24.	Chongzuo (1)	41.	Baotou (4)
3.	Chuzhou (6)	25.	Foshan (19)	42.	Beijing (2)
4.	Hangzhou (34)	26.	Guangzhou (9)	43.	Dalian (1)
5.	Huai'an (1)	27.	Guilin (1)	44.	Ordos (1)
6.	Huanggang (1)	28.	Haikou (1)		
7.	Huzhou (20)	29.	Huizhou (2)		
8.	Jiaxing (2)	30.	Jiangmen (1)		
9.	Nantong (9)	31.	Nanchang (1)		
10.	Ningbo (277)	32.	Nanning (19)		
11.	Quzhou (5)	33.	Qingyuan (3)		
12.	Shanghai (12)	34.	Sanya (9)		
13.	Shaoxing (22)	35.	Wenchang (2)		
14.	Suzhou (8)	36.	Wuzhou (4)		
15.	Táizhou (1)	37.	Zhaoqing (4)		
16.	Tàizhou (1)	38.	Zhongshan (2)		
17.	Wenzhou (4)	39.	Zhuhai (1)		
18.	Wuxi (13)				
19.	Xuancheng (4)				
20.	Yangzhou (1)				
21.	Zhenjiang (2)				
22.	Zhoushan (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 at the dates indicated.

	As at 30 June 2018		As at 31 December 2017	
	Sq. m. in thousands	No.	Sq. m. in thousands	No.
<i>Residential properties</i>				
Eastern and Central China ⁽¹⁾	34,467	248	33,450	239
Southern China ⁽²⁾	13,098	60	12,414	56
Northern China ⁽³⁾	1,403	5	1,861	6
Subtotal	48,968	313	47,725	301
<i>Non-residential properties</i>	6,967	133	6,836	132
Total	55,935	446	54,561	433

As at 30 June 2018, the Group's contracted GFA of undelivered properties amounted to approximately 12.2 million sq.m. (31 December 2017: 12.1 million sq.m.).

Notes:

- (1) Including Chizhou, Chongqing, Chuzhou, Hangzhou, Huai'an, Huanggang, Huzhou, Jiaxing, Nantong, Ningbo, Quzhou, Shanghai, Shaoxing, Suzhou, Táizhou, Tàizhou, Wenzhou, Wuxi, Xuancheng, Yangzhou, Zhenjiang and Zhoushan.
- (2) Including Cenxi, Chongzuo, Foshan, Guangzhou, Guilin, Haikou, Huizhou, Jiangmen, Nanchang, Nanning, Qingyuan, Sanya, Wenchang, Wuzhou, Zhaoqing, Zhongshan and Zhuhai.
- (3) Including Baoding, Baotou, Beijing, Dalian and Ordos.

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 sales process of the properties. The sales assistance services 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. During the six months ended 30 June 2018 and 30 June 2017, the Group provided sales assistance services to 57 and 60 properties, respectively.

Other services and sale of goods

The Group provides installation, repairing and maintenance services primarily to the elevators of the properties under management and provides weak-current engineering services to 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.

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.

Pursuant to the terms of the Joint Venture Agreement entered between the Group and the vendors on 26 July 2016, 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 if the adjusted net profit of Yongcheng for each of the four financial years ending 31 December 2016, 2017, 2018 and 2019 will not be less than RMB32 million. Since the net profit of Yongcheng for the financial year of 2016 and 2017 has met the profit guarantee provision provided to the Group, the Group entered into acquisition agreements with the vendors on 29 June 2017 and 11 June 2018, respectively, to purchase two tranches of 7.5% of the registered capital of Yongcheng each at a consideration of RMB22.5 million.

Upon completion of the above acquisitions, the Group holds 85% 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 six months ended 30 June 2018, the Group recorded revenue of RMB498.0 million, representing a year-on-year increase of 4.7% over the previous period ended 30 June 2017.

Increase in the Group's revenue was primarily attributable to the growth in property management business revenue from RMB475.3 million for the period ended 30 June 2017 to RMB498.0 million for the period ended 30 June 2018 and represented 4.8% increase over the corresponding period last year.

Breakdown of Revenue by business line and services

For the six months ended 30 June

	2018	2017	Change	
	RMB'000	RMB'000	RMB'000	%
Property management business				
— Property management services	463,126	438,501	24,625	5.6
— Sales assistance services	19,689	23,799	(4,110)	(17.3)
— Other services and sale of goods	15,218	12,955	2,263	17.5
Online to offline business	—	288	(288)	(100)
	498,033	475,543	22,490	4.7

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 services are as follows:

Property management services

Revenue from property management services increased by RMB24.6 million, or 5.6% over the same period in 2017 primarily due to (i) growth in the group's existing property management services business as a result of increase in the delivered contracted GFA by 1.3 million sq.m.; and (ii) increase in average price per revenue-bearing GFA from RMB1.79/sq.m./month as at 30 June 2017 to RMB1.80/sq.m./month as at 30 June 2018.

Sales Assistance Services

Revenue from the sales assistance business line for the six months ended 30 June 2018 was RMB19.7 million, comparing to RMB23.8 million for the six months ended 30 June 2017, represented a decrease of RMB4.1 million, or 17.3%. The decrease in revenue from the sales assistance services was due to the decrease in the number of projects, where the Group provided sales assistance services on 57 projects for the six months ended 30 June 2018 as compared to 60 projects for the six months ended 30 June 2017.

Other services and sale of goods

Revenue from other services and sale of goods during the six months ended 30 June 2018 was RMB15.2 million (six months ended 30 June 2017: RMB13.0 million). This primarily consists of the provision of engineering and catering services, and the sales of engineering spare parts. The increase in revenue of this service line was mainly due to increase in the needs of clients or customers.

Cost of Sales and Services

The Group's cost of sales and services primarily comprises (i) sub-contracting costs, representing the expenses paid to sub-contractors for various services under the property management services and sales assistance services; (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 and weak-current engineering services; costs of the spare parts sold and operating costs in running the catering services.

For the six months ended 30 June 2018, cost of sales and services increased by 4.5% from approximately RMB331.1 million for the six months ended 30 June 2017 to approximately RMB345.9 million. The increase was due primarily to the growth of the Group's business and the corresponding increase in the labor costs and sub-contracting costs.

Gross Profit and Gross Profit Margin

The table below sets forth the Group's gross profit and gross profit margins by business line for the period indicated:

	For the six months ended 30 June			
	2018 (Unaudited)		2017 (Unaudited)	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Property management business				
— Property Management services	140,466	30.3	130,056	29.7
— Sales assistance services	8,362	42.5	11,834	49.7
— Other services and sale of goods	3,304	21.7	2,372	18.3
Online to offline business	—	N/A	210	72.9
Total	<u>152,132</u>	<u>30.5</u>	<u>144,472</u>	<u>30.4</u>

The Group's gross profit for the six months ended 30 June 2018 was RMB152.1 million, comparing to RMB144.5 million for the six months ended 30 June 2017, represented an increase of RMB7.6 million, or 5.3%. The Group's overall gross profit margin slightly increased from 30.4% for the six months ended 30 June 2017 to 30.5% for the six months ended 30 June 2018.

The Group's gross profit for the property management business line for the six months ended 30 June 2018 was RMB152.1 million, comparing to RMB144.3 million for the six months ended 30 June 2017, represented an increase of RMB7.8 million, or 5.4%. The Group's gross profit margin for the property management business line increased from 30.4% for the six months ended 30 June 2017 to 30.5% for the six months ended 30 June 2018 as a result of (i) increased average price per revenue-bearing GFA from RMB1.79/sq.m./month as at 30 June 2017 to RMB1.80/sq.m./month as at 30 June 2018, (ii) increased economies of scale as multiple phases of the same properties were delivered and became revenue-bearing; and (iii) termination of property management services to certain residential properties as the profitability of these properties did not meet the Group's expectations.

Other Income and Gains

The Group's other income and gains for the six months ended 30 June 2018 was RMB19.1 million, which increase by RMB10.7 million as compared to RMB8.4 million for the six months ended 30 June 2017. The increase was mainly due to (i) the increase in the unconditional subsidies from the government of RMB7.9 million; (ii) the increased in rental income from investment properties of RMB1.2 million; and (iii) the increase in net exchange gain of RMB1.7 million for the six months ended 30 June 2018 which has been recorded as a net exchange loss in other expenses for the corresponding period in 2017.

Selling and Marketing Expenses

The Group's selling and marketing expenses for the six months ended 30 June 2018 were RMB2.5 million, comparing to RMB3.3 million for the six months ended 30 June 2017, represented a decrease of RMB0.8 million, or 24.2%. The decrease was primarily due to the layoff the majority of Hangzhou O2O Team on 8 April 2017 after entering into the Technical Services Agreement with third party service provider.

Administrative Expenses

The Group's administrative expenses for the six months ended 30 June 2018 was RMB76.3 million, comparing to RMB48.6 million for the six months ended 30 June 2017, represented a increase of RMB27.7 million, or 57.0%. The increase was primarily due to the (i) the share award expenses of approximated RMB5.5 million arose from awarding 8,500,000 awarded shares to 21 employees; (ii) the discretionary bonus of approximately RMB6.5 million paid to certain top management of the Company; (iii) the reversal of share-based payment expenses of a subsidiary of RMB13.0 million in the corresponding period; and (iv) expansion of the Group's business scale.

Other Expenses

The Group's other expenses for the six months ended 30 June 2018 primarily comprised the provision for impairment of trade receivables and other receivables of RMB21.6 million (six months ended 30 June 2017: RMB19.2 million).

Finance Costs

The Group's net finance income amounted to RMB3.7 million for the six months ended 30 June 2018 (six months ended 30 June 2017: finance costs of RMB3.7 million). This primarily due to the net effect of (i) the interest expense of RMB2.2 million for bank borrowings; and (ii) the reversal of the imputed interest expenses of RMB5.9 million on the buy-out options granted to non-controlling equity holders of a subsidiary.

Income Tax Expense

The Group's income tax expense for the six months ended 30 June 2018 was RMB24.0 million, comparing to RMB28.1 million for the six months ended 30 June 2017, the Group's effective tax rate decreased from 36.1% for the six months ended 30 June 2017 to 31.4% for the six months ended 30 June 2018, which was primarily due to (i) the decrease of non-deductible expenses; and (ii) the utilizing of the tax losses incurred in O2O business.

Goodwill

As at 30 June 2018, the Group recorded goodwill of RMB128.2 million, representing an increase of 21.4% as compared with that of RMB105.6 million as at 31 December 2017. The goodwill of the Group primarily included (i) the goodwill of RMB3.5 million in relation to the acquisition of Eastern Harbour Engineering Management Limited; (ii) the goodwill of RMB101.1 million in relation to the acquisition of Zhejiang Yongcheng; and (iii) the goodwill of RMB23.6 million in relation to the acquisition of Enlightening Excess Limited. The goodwill primarily derived from the expected future business development of the above acquired companies, increase of market coverage, expansion of service portfolio, integration of value-added services and improvement of management efficiency.

The management of the Group believes that the performance of the acquired companies in the first half of 2018 reached the management's expectation in the first half of 2018, the management of the Group determined that no impairment of goodwill should be recognized.

Trade and Bills Receivables

Trade and bills receivables mainly arose from management and service income from property management services and income from sales assistance service.

As at 30 June 2018, total trade and bills receivables of the Group amounted to approximately RMB280.0 million, representing an increase of approximately RMB89.1 million compared to approximately RMB190.9 million as at 31 December 2017.

The Group's trade and bills receivables turnover days for the six months ended 30 June 2018 was 86 days (year ended 31 December 2017: 65 days). Due to the seasonality caused by property owners' tendency to settle management fee balances towards the end of the year, the Group's trade receivables as at 30 June 2018 are higher than that at the previous year end.

Contract Liabilities and Other Payables and Accruals

Contract liabilities and other payables and accruals primarily comprise receipts on behalf of community residents for utilities, receipts in advances, accruals and deposits received. Contract liabilities and other payables and accruals increased from approximately RMB386.0 million as at 31 December 2017 to approximately RMB426.9 million as at 30 June 2018, which were primarily attributable to the net effect of (i) the increase of RMB19.6 million in receipts on behalf of community residents for utilities; (ii) the increase of RMB31.9 million in contract liabilities and receipts in advance; and (iii) the decrease of RMB10.4 million in accrued salaries.

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 at 30 June 2018, net working capital (calculated as current assets less current liabilities) was RMB167.8 million which represented an decrease of RMB58.4 million from RMB226.2 million as at 31 December 2017. The current ratios (calculated as current assets/current liabilities) are 1.3 times and 1.4 times as at 30 June 2018 and 31 December 2017 respectively.

As at 30 June 2018, the Group had bank borrowings denominated in RMB of RMB20.0 million (31 December 2017: RMB23.0 million) which was secured by the investment properties of the Group and bore interest at fixed-rate. In addition, the Group had an unsecured bank borrowing amount to RMB79.7 million (31 December 2017: RMB78.0 million) which was variable rate and denominated in HK\$ as at 30 June 2018.

The Group principally focused its operation in the PRC. Except for the bank deposits and bank borrowing denominated in foreign currencies, the Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the six months ended 30 June 2018, 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 and bank balances and cash divided by total equity. As at 30 June 2018, the Group was in a strong financial position with a net cash position amounting to RMB210.4 million (31 December 2017: RMB377.8 million). Accordingly, no gearing ratio is presented.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2018.

Employees and Remuneration Policies

As at 30 June 2018, excluding the employees under commission basis, the Group had approximately 8,800 (31 December 2017: 7,300) 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 adopted a 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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil). The Board will consider to declare final dividend if the annual results of the Group for the year ending 31 December 2018 is satisfactory.

CORPORATE GOVERNANCE

The Board is committed to maintaining and upholding high standards of corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders of the Company (“Shareholders”).

The Company has adopted the code provisions set out in the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of the Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) as its code of corporate governance.

In the opinion of the Directors, the Company applied and complied with all the code provisions of the CG Code throughout the six months ended 30 June 2018, except for certain deviations as specified and explained with considered reasons hereunder:

Code Provision A.2.1

Chairman and chief executive officer are two key aspects of the management of a company. Chairman is responsible for providing leadership for the board and management of the board while chief executive officer is responsible for day-to-day management of business. Clear division of these responsibilities should be in place to ensure a balance of power and authority. The code provision A.2.1 of CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

During the period, Mr. Liu Jian is the chairman and chief executive officer of the Company. This constitutes a deviation from the code provision A.2.1 of CG Code.

The Company consider that having Mr. Liu acting as both the chairman and chief executive officer will provide a strong and consistent leadership to the Group and allow for more effective strategic planning and management of the Group. Further, in view of Mr. Liu’s experience in the industry, personal profile and role in the Group and historical development of the Group, the Group considers it is to the benefit of the Group that Mr. Liu continues to act as both the chairman and chief executive officer after the Listing. Therefore, the Company currently has no intention to separate the functions of chairman and chief executive officer.

Code Provision A.4.1

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 until termination by the notice period as stipulated in the respective appointment letter in writing served by either the Company or the respective Director. 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.

EVENTS AFTER THE REPORTING PERIOD

On 12 June 2018, the Group entered into two acquisition agreements to purchase 60% of equity interests of Shanghai Tangnian Cleaning Services Company Limited and Shanghai Tanglei Cleaning Services Company Limited, from two individuals at a total consideration of RMB3,400,000 and from an individual at a total consideration of RMB1,600,000 respectively. Both of acquisition transactions have been completed subsequently.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in Company's securities. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2018.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rule and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, namely Mr. Chan Wai Cheung, Admiral, Mr. Zhang Weilun and Mr. Chan Ka Leung, Kevin, all being independent non-executive directors. Mr. Chan Wai Cheung, Admiral is the chairman of the audit committee and is the independent non-executive director with the appropriate professional qualifications. The unaudited interim results of the Group for the six months ended 30 June 2018 have been reviewed by the audit committee of the Board.

The Company's independent auditor, Ernst & Young, has conducted a review of the interim financial information of the Group for the six months ended 30 June 2018 in accordance with Hong Kong standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

Save as disclosed above, the Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2018. In addition, the Group had no significant investments held during the six months ended 30 June 2018.

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

During the six months ended 30 June 2018, neither the Company, nor any of its subsidiaries repurchased, redeemed or sold any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.gdzawy.com). The interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be dispatched to the Company's Shareholders and published on the above websites in due course.

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

Hong Kong, 30 August 2018

As at the date of this announcement, the Executive Directors are Mr. Liu Jian, Ms. Chen Zhuo, Mr. Liang Bing and Mr. Long Weimin; the Non-Executive Directors are Mr. Wei Zhe, Ms. Wu Qimin and Mr. Zheng Dong; the Independent Non-Executive Directors are Mr. Zhang Weilun, Mr. Chan Wai Cheung, Admiral, Mr. Chan Ka Leung, Kevin and Mr. Huang Auxin.