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 2018

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2018	2017	
	RMB'000	*RMB'000*	*Change*
Revenue	**1,023,011**	977,552	4.7%
Gross profit	**282,105**	296,837	-5.0%
Profit for the year	**106,950**	99,288	7.7%
Profit attributable to owners of the parent	**96,088**	90,549	6.1%
Gross profit margin (%)	**27.6%**	30.4%	-2.8 pp
Net profit margin (%)	**10.5%**	10.2%	0.3 pp
Basic earnings per share *(RMB)*	**0.119**	0.113	5.3%
Final dividend per share *(HK$)*	**0.025**	0.05	-50.0%

PROSPECTS AND FUTURE PLANS

In December 2018, the Group successfully acquired 75% equity interest of 杭州安嘉物業管理有限公司 (Hangzhou Anjia Property Management Company Limited*) ("**Hangzhou Anjia**") from 杭州市居住區發展中心有限公司 (Hangzhou Residential Area Development Center Company Limited*), which is a state-owned enterprise, at a consideration of RMB18.1 million. Hangzhou Anjia is a PRC property management company located in Hangzhou with 27 properties and approximately 2.1 million sq.m. of GFA under its management.

As disclosed in the Company's announcement dated 26 February 2019, the Company entered into the Capital Injection Agreement pursuant to which the Company agreed to make a capital injection in total amount of RMB56.3 million into 蘇州工業園區建屋物業發展有限公司 (Suzhou Industrial Park House Construction Property Development Company Limited*) ("**Suzhou House Construction**") and subscribe for 66% of the enlarged registered capital in Suzhou House Construction. Suzhou House Construction is a PRC property management company located in Suzhou with 30 properties and approximately 3.7 million sq.m. of GFA under its management. Upon the completion of capital injection, the capital injection amount will be applied by Suzhou House Construction as its working capital and for its business development.

It is expected that (i) the introduction of the Group as a strategic investor of both Hangzhou Anjia and Suzhou House Construction will have positive effect to the profit and growth of Hangzhou Anjia and Suzhou House Construction; (ii) the investment in Hangzhou Anjia and Suzhou House Construction and with their respective state-owned enterprise backgrounds will enhance the exploration and development of new business of the Group. It will also enhance the Group's exposure, experience and reputation in the market as well as the overall competitiveness of the Group for property management projects in the future; and (iii) it will provide the Group with investment opportunities to broaden its income stream, increase the reserved area for the property management services business of the Group, further enhance the value of the Group and maximise the returns to the Shareholders.

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 2018 together with the comparative audited figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*4*	**1,023,011**	977,552
Cost of sales		**(740,906)**	(680,715)
Gross profit		**282,105**	296,837
Other income and gains	*4*	**30,809**	20,617
Selling and marketing expenses		**(5,539)**	(6,394)
Administrative expenses		**(151,065)**	(115,121)
Net impairment losses reversal/(recognised) on financial assets		**1,672**	(29,472)
Share of profits and losses of:			
Joint ventures		**2,895**	2,645
Associates		**(4)**	(111)
Other expenses		**(1,641)**	(10,282)
Finance costs	*6*	**(1,833)**	(9,512)
PROFIT BEFORE TAX	*5*	**157,399**	149,207
Income tax expenses	*7*	**(50,449)**	(49,919)
PROFIT FOR THE YEAR		**106,950**	99,288
Attributable to:			
— Owners of the parent		**96,088**	90,549
— Non-controlling interests		**10,862**	8,739
		106,950	99,288
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic and diluted (RMB)		**0.119**	0.113

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property and equipment		**41,533**	35,287
Investment properties		**184,384**	163,592
Prepayments for acquisition of properties		**7,958**	14,738
Goodwill		**155,456**	105,560
Investments in joint ventures		**4,412**	5,020
Investments in associates		**3,175**	2,689
Intangible assets		**90,837**	94,836
Long-term deposits		**997**	2,267
Deferred tax assets		**30,929**	24,530
Total non-current assets		**519,681**	448,519
CURRENT ASSETS			
Inventories		**1,409**	824
Trade and bills receivables	*10*	**207,826**	190,932
Prepayments and other receivables	*11*	**196,508**	112,290
Cash and cash equivalents		**415,795**	483,806
Total current assets		**821,538**	787,852
CURRENT LIABILITIES			
Trade payables	*12*	**47,687**	44,965
Other payables and accruals	*13*	**433,332**	385,962
Interest-bearing bank borrowings		**70,382**	42,276
Tax payables		**98,573**	88,439
Total current liabilities		**649,974**	561,642
NET CURRENT ASSETS		**171,564**	226,210
TOTAL ASSETS LESS CURRENT LIABILITIES		**691,245**	674,729

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER

	NOTES	**2018** **RMB'000**	2017 *RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**25,376**	26,059
Interest-bearing bank borrowings		**41,459**	58,693
Other long-term payable		**18,460**	43,284
Total non-current liabilities		**85,295**	128,036
NET ASSETS		**605,950**	546,693
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	*14*	**6,689**	6,619
Reserves		**555,123**	485,760
		561,812	492,379
Non-controlling interests		**44,138**	54,314
TOTAL EQUITY		**605,950**	546,693

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 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 sale assistance 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 at 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 2018. 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 new and revised HKFRSs for the first time for the current year's financial statements.

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

Except for the amendments to HKFRS 4 and *Annual Improvements to HKFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 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 a certain amount in order to meet an employee's tax obligation associated with the share-based payment; 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. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) 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.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement		Re–		HKFRS 9 measurement	
	Category	**Amount**	**classification**	**ECL**	**Amount**	**Category**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets						
Financial assets included in prepayments and other receivables	L&R[1]	86,846	–	(13,196)	73,650	AC[2]
Trade and bills receivables	L&R	190,932	–	(12,225)	178,707	AC
Cash and cash equivalents	L&R	483,806	–	–	483,806	AC
		761,584	–	(25,421)	736,163	
Other assets						
Deferred tax assets		24,530	–	6,355	30,885	
Total assets		786,114	–	(19,066)	767,048	
Financial liabilities						
Financial liabilities included in other payables and accruals	AC	196,721	–	–	196,721	AC
Interest-bearing bank borrowings	AC	100,969	–	–	100,969	AC
Trade payables	AC	44,965	–	–	44,965	AC
Other Payables for Option	FVPL[3]	65,439			65,439	FVPL
Total liabilities		408,094	–	–	408,094	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

3 FVPL: Financial liabilities at fair value through profit or loss

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 10 and 11 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECL allowances under HKFRS 9 at 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*
Trade and bill receivables	78,029	12,225	90,254
Financial assets included in prepayments and other receivables	10,723	13,196	23,919
	88,752	25,421	114,173

Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits
	RMB'000
Retained profits	
Balance as at 31 December 2017 under HKAS 39	59,520
Recognition of expected credit losses for trade and bills receivables under HKFRS 9	(12,225)
Recognition of expected credit losses for prepayments and other receivables under HKFRS 9	(13,196)
Deferred tax in relation to the above	6,355
Impact on non-controlling interests	3,076
Balance as at 1 January 2018 under HKFRS 9	43,530

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new 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 principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. The Group determined that there are no significant financial impact arising from the initial application of IFRS 15.

(d) Amendments to HKAS 40 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. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 Cenxi, Foshan, Guangzhou, Guilin, Huizhou, Jiangmen, Nanning, Qingyuan, Sanya, Wuzhou, Zhaoqing, Zhongshan and Wenchang;

(b) Eastern and Central Region includes the cities of Changde, Chongqing, Chuzhou, Hangzhou, Huaian, Huzhou, Jiaxing, Nanchang, Nantong, Ningbo, Quzhou, Shanghai, Shaoxing, Suzhou, Táizhou, Tàizhou, Wenzhou, Wuxi, Xuancheng, Zhenjiang, Nanjing, Hengyang, Yixing, Taixing, Longyou Changsha and Chizhou;

(c) Northern Region includes the cities of Baoding, Baotou, Beijing, Dalian, Heze, Eerduosi, Tianjin, Bazhou, Tangshan and Qingdao.

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, share of profits of ventures, share of losses of associates, 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, 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.

3. **OPERATING SEGMENT INFORMATION (Continued)**

Operating segments

	Southern Region *RMB'000*	Eastern and Central Region *RMB'000*	Northern Region *RMB'000*	Total *RMB'000*
Year ended 31 December 2018				
Segment revenue	**252,648**	**706,286**	**64,077**	**1,023,011**
Segment results	**63,157**	**116,679**	**15,914**	**195,750**
Reconciliation:				
Bank interest income				**2,943**
Fair value gains on investment properties				**3,216**
Net foreign exchange gains				**1,431**
Gain on disposal of financial assets at fair value through profit or loss				**3,915**
Gain on disposal of a subsidiary				**299**
Gain on disposal of a joint venture				**1,450**
Corporate expenses				**(47,003)**
Share-based payment expense				**(5,660)**
Share of profit of a joint venture				**2,895**
Share of loss of associates				**(4)**
Finance costs				**(1,833)**
Profit before tax				**157,399**
Segment assets	**639,417**	**770,433**	**41,771**	**1,451,621**
Reconciliation:				
Elimination of intersegment receivables				**(648,337)**
Corporate and other unallocated assets				**537,935**
Total assets				**1,341,219**
Segment liabilities	**274,606**	**341,047**	**18,975**	**634,628**
Reconciliation:				
Elimination of intersegment payables				**(648,337)**
Corporate and other unallocated liabilities				**748,978**
Total liabilities				**735,269**
Other segment information				
Net impairment losses recognised/ (reversal) in profit or loss	**974**	**1,921**	**(4,567)**	**(1,672)**
Depreciation and amortisation				
Unallocated				**405**
Segment	**4,773**	**19,962**	**124**	**24,859**
Investments in associates	**3,175**	**–**	**–**	**3,175**
Investment in a joint venture	**–**	**4,412**	**–**	**4,412**
Capital expenditure*				
Unallocated				**2,145**
Segment	**9,280**	**30,445**	**235**	**39,960**

* Capital expenditure consists of additions to property and equipment, investment properties, intangible assets and prepayments for acquisition of properties.

3. **OPERATING SEGMENT INFORMATION (Continued)**

Operating segments (Continued)

	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
Fair value gains on 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 loss of an associate				(111)
Share of profit of joint ventures				2,645
Finance costs				(9,512)
Profit before tax				149,207
Segment assets	439,460	351,424	13,006	803,890
Reconciliation:				
Elimination of intersegment receivables				(614,381)
Corporate and other unallocated assets				1,046,862
Total assets				1,236,371
Segment liabilities	205,083	332,331	21,791	559,205
Reconciliation:				
Elimination of intersegment payables				(614,381)
Corporate and other unallocated liabilities				744,854
Total liabilities				689,678
Other segment information				
Impairment losses recognised in profit or loss	4,849	23,937	686	29,472
Depreciation and amortisation				
Unallocated				62
Segment	4,939	21,210	139	26,288
Investment in an associate	2,689	–	–	2,689
Investments in joint ventures	–	5,020	–	5,020
Capital expenditure*				
Unallocated				1,000
Segment	18,554	6,378	57	24,989

* Capital expenditure consists of additions to property and equipment, investment properties, intangible assets and prepayments for acquisition of properties

3. **OPERATING SEGMENT INFORMATION (Continued)**

Operating segments (Continued)

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

	Property management business *RMB'000* *(Note a)*	Sale assistance businesses *RMB'000* *(Note b)*	Other businesses *RMB'000* *(Note c)*	Total *RMB'000*
Year ended 31 December 2018				
Segment revenue	**948,343**	**41,503**	**33,165**	**1,023,011**
Segment results	**171,591**	**14,646**	**9,513**	**195,750**
Year ended 31 December 2017				
Segment revenue	910,941	43,187	23,424	977,552
Segment results	185,378	15,979	(2,279)	199,078

Notes:

(a) The Group primarily provides property developers and property owners with a broad range of property management services mainly to 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 the provision of general assistance to facilitate the sales process of the properties.

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

Information about a major customer

During the years ended 31 December 2018 and 2017, there was no revenue from transactions with a single customer amounted to 10% or more of the Group's revenue .

Geographical information

The Group's total revenue is all generated in Mainland China and the non-current assets are all located in Mainland China.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Rendering of services	**1,005,742**	967,834
Sale of goods	**17,269**	9,718
	1,023,011	977,552

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	**Property management business**	**Sales assistance business**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Type of goods or services				
Rendering of services	948,343	41,503	15,896	1,005,742
Sale of goods	–	–	17,269	17,269
	948,343	41,503	33,165	1,023,011
Geographical markets				
Mainland China	948,343	41,503	33,165	1,023,011
Timing of revenue recognition				
Revenue recognised over time	948,343	41,503	15,896	1,005,742
Revenue recognised at a point in time	–	–	17,269	17,269
Total revenue from contracts with customers	948,343	41,503	33,165	1,023,011

4. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2018

Segments	**Property management business** *RMB'000*	**Sales assistance business** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue from contracts with customers				
External customers	948,343	41,503	33,165	1,023,011
Intersegment sales	58,957	–	4,822	63,779
Intersegment adjustments and eliminations	(58,957)	–	(4,822)	(63,779)
Total revenue from contracts with customers	948,343	41,503	33,165	1,023,011

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Property management services	82,265

4. **REVENUE, OTHER INCOME AND GAINS (Continued)**

Revenue from contracts with customers (Continued)

(ii) Performance obligations

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

Provision of property management service

The performance obligation is satisfied over time as services are rendered and payment is generally due within 45 days from the date of billing.

Sales assistance service

The performance obligation is satisfied over time as services are rendered and payment is generally due within 45 days from the date of billing.

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from customer acceptance of delivered goods.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018 ***RMB'000***
Within one year	92,010
More than one year	–
	92,010

All the remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2018 ***RMB'000***	2017 *RMB'000*
Other income		
Bank interest income	**2,943**	1,795
Government grants	**10,572**	11,095
Rental income	**4,652**	2,575
Others	**2,331**	67
	20,498	15,532
Gains		
Fair value gains on investment properties	**3,216**	3,960
Gain on disposal of financial assets at fair value through profit or loss/available for sale financial investments	**3,915**	1,125
Net foreign exchange gain	**1,431**	–
Gain on disposal of a joint venture	**1,450**	–
Gain on disposal of a subsidiary	**299**	–
	10,311	5,085
	30,809	20,617

5. PROFIT BEFORE TAX

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

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Cost of services provided		**728,781**	674,806
Cost of goods sold		**12,125**	5,909
Depreciation		**11,468**	10,045
Amortisation of intangible assets		**13,796**	16,305
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Salaries and other benefits		**353,227**	284,361
Retirement benefit scheme contributions		**20,333**	12,039
Share-based payment expenses		**5,592**	(11,714)
		379,152	284,686
Impairment of financial assets, net			
(Reversal of)/Provision for impairment of trade and bills receivables		**(4,404)**	22,431
Provision for impairment of other receivables		**2,732**	7,041
Minimum lease payments under operating leases		**8,592**	7,535
Auditor's remuneration		**2,790**	2,250
Fair value gains on investment properties		**(3,216)**	(3,960)
Rental income	*4*	**(4,652)**	(2,575)
Net foreign exchange (gains)/losses		**(1,431)**	8,657
Bank interest income	*4*	**(2,943)**	(1,795)
Gain on disposal of financial assets at fair value through profit or loss/available for sale financial investments	*4*	**(3,915)**	(1,125)
Gain on disposal of a joint venture		**(1,450)**	–
Gain on disposal of a subsidiary		**(299)**	–
Loss on disposal of items of property and equipment		**60**	77
Government grants*	*4*	**(10,572)**	(11,095)

* 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.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Interest on borrowings	**4,897**	4,646
(Reversal of interest expenses)/Interest expense imputed on consideration payable	**(3,064)**	6,221
Reversal of interest expense imputed on non-current liabilities for cash-settled share-based payments	**–**	(1,355)
	1,833	9,512

7. INCOME TAX

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 2018 (2017: 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.

	2018	2017
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**53,980**	60,810
Deferred tax	**(3,531)**	(10,891)
Total tax charge for the year	**50,449**	49,919

8. DIVIDEND

During 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. Dividend amounting to RMB33,984,000 were paid on 6 July 2018 (2017: Nil).

9. 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 year, and the weighted average number of ordinary shares of 810,570,384 shares (2017: 798,146,378 shares) in issue during the year.

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

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**96,088**	90,549
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**810,570,384**	798,146,378

For the years ended 31 December 2018 and 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 was higher than the average market price of the Company's shares during the years ended 31 December 2018 and 2017.

10. TRADE AND BILLS RECEIVABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade and bills receivables	**293,676**	268,961
Less: Provision for doubtful debts	**(85,850)**	(78,029)
	207,826	190,932

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

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

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 30 days	**20,321**	46,480
Over 30 days and within 90 days	**28,386**	34,725
Over 90 days and within 180 days	**51,929**	37,654
Over 180 days and within 365 days	**53,847**	54,585
Over one year	**53,343**	17,488
	207,826	190,932

11. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Payment on behalf of customers to utility suppliers	**78,948**	57,227
Prepayments	**49,679**	24,580
Deposits paid to utility suppliers	**19,352**	17,132
Taxes recoverable	**6,076**	864
Other receivables	**69,104**	23,210
	223,159	123,013
Less: Impairment allowance	**(26,651)**	(10,723)
Total	**196,508**	112,290

12. TRADE PAYABLES

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 60 days	**39,312**	30,938
Over 60 days and within 180 days	**3,339**	8,445
Over 180 days and within 365 days	**2,999**	3,978
Over one year	**2,037**	1,604
	47,687	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.

13. OTHER PAYABLES AND ACCRUALS

		31 December 2018 RMB'000	31 December 2017 RMB'000
Contract liabilities	*(a)*	**92,010**	–
Receipts on behalf of community residents for utilities		**161,287**	128,671
Received in advance		**188**	82,572
Accruals		**66,339**	60,283
Deposits received		**57,458**	63,017
Other payables	*(b)*	**16,386**	10,351
Other Payables for Option	*(b)*	**21,415**	22,155
Amounts due to non-controlling equity holders of a subsidiary		**10,241**	5,033
Other tax payables		**8,008**	13,880
		433,332	385,962

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Property management services	**92,010**	82,265

Contract liabilities include short-term advances received to deliver property management services. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the provision of property management services at the end of the year.

(b) As at 31 December 2018, 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 Payables for Option, other payables are non-interest-bearing and have an average term of three months.

14. SHARE CAPITAL

Shares

	Number of ordinary shares	Nominal value of HKD0.01 each
		HK$'000
Authorised:		
At 1 January 2018 and 31 December 2018	8,000,000,000	80,000
Issued and fully paid:		
At 1 January 2017	794,544,000	7,945
Shares issued *(note (a))*	8,434,000	84
Shares cancelled *(note (b))*	(372,000)	(3)
At 31 December 2017 and 1 January 2018	802,606,000	8,026
Shares issued *(note (a))*	8,500,000	85
At 31 December 2018	811,106,000	8,111

	2018	2017
	RMB'000	*RMB'000*
Issued and fully paid:		
Ordinary shares		
At 1 January	**6,619**	6,549
Shares issued	**70**	73
Shares cancelled	**–**	(3)
At 31 December	**6,689**	6,619

(a) During the year 2017 and 2018, 8,434,000 and 8,500,000 shares, respectively, were issued and granted to the eligible employees under the share award scheme at nil consideration.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a leading independent property management company in China. In 2018, the Group was rated among the Best 10 of property management enterprises in China in terms of the overall strength by 中國房地產業協會 (China Real Estate Association*), 上海易居房地產研究院 (Shanghai E-house China R&D Institute*) and 中國房地產測評中心 (China Real Estate Appraisal Centre*). As at 31 December 2018, the Group had a total contracted gross floor area ("GFA") of 70.5 million square meters ("sq.m.") where it was contracted to manage 570 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

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

Property Management Services

As of 31 December 2018, the Group had expanded its presence to 43 cities in China where it was contracted to manage a total of 570 residential properties and non-residential premises such as commercial or government buildings with an aggregate contracted GFA of 70.5 million sq.m.. This represented an increase of 5.7% compared to the aggregate contracted GFA of 66.7 million sq.m. as at 31 December 2017. In relation to the delivered GFA of 56.9 million sq.m. in 2018, the increase represented a growth of 4.2% 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 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.

	2018	2017
	RMB'000	*RMB'000*
Eastern and Central China	**706,286**	676,262
Southern China	**252,648**	235,479
Northern China	**64,077**	65,811
Total	**1,023,011**	977,552

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 2018.

■ Eastern and Central China

1. Changde (1)
2. Chongqing (1)
3. Chuzhou (5)
4. Hangzhou (58)
5. Heze(3)
6. Huaian (2)
7. Huanggang (1)
8. Huzhou (20)
9. Jiaxing (1)
10. Nanchang (1)
11. Nantong (13)
12. Ningbo (296)
13. Quzhou (5)
14. Shanghai (14)
15. Shaoxing (16)
16. Suzhou (8)
17. Táizhou (2)
18. Tàizhou (1)
19. Wenzhou (8)
20. Wuxi (12)
21. Xuancheng (5)
22. Yueyang (1)
23. Zhenjiang (3)

■ Southern China

24. Cenxi (5)
25. Chongzuo (1)
26. Foshan (20)
27. Guangzhou (11)
28. Guilin (1)
29. Huizhou (2)
30. Jiangmen (1)
31. Nanning (18)
32. Qingyuan (3)
33. Sanya (9)
34. Wenchang (1)
35. Wuzhou (4)
36. Zhaoqing (4)
37. Zhongshan (2)

■ Northern China

38. Baoding(1)
39. Baotou (4)
40. Beijing (3)
41. Dalian (1)
42. Eérduosi (1)

■ Westem China

43. Lhasa(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 2018		As of 31 December 2017	
	Sq.m. in thousands	***No.***	*Sq.m. in thousands*	*No.*
Residential properties				
Eastern and Central China(1)	**34,664**	**252**	33,450	239
Southern China(2)	**12,818**	**55**	12,414	56
Northern China(3)	**2,054**	**6**	1,861	6
Subtotal	**49,536**	**313**	47,725	301
Non-residential properties	**7,371**	**150**	6,836	132
Total	**56,907**	**463**	54,561	433

As of 31 December 2018, the Group's contracted GFA of undelivered properties amounted to approximately 13.5 million sq.m. (2017: 12.2 million sq.m.)

Notes:

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

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

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

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 2018		As of 31 December 2017	
	Sq.m. in thousands	***No.***	*Sq.m. in thousands*	*No.*
As at beginning of period	**66,747**	**500**	59,995	455
New engagements(1)	**8,830**	**83**	8,574	66
Acquisitions	**2,140**	**27**	258	3
Terminations(2)	**(7,267)**	**(40)**	(2,080)	(24)
As at end of period	**70,450**	**570**	66,747	500

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 65 and 66 properties in 2018 and 2017, 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

The Group provides installation, repairing and maintenance services primarily to the elevators of the properties under management and provides light-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 of 浙江永成物業管理有限公司 (Zhejiang Yongcheng Property Management Company Limited*) ("Yongcheng") 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. Since the net profit of Yongcheng for the financial years of 2016 and 2017 has met the profit guarantee provision provided to the Group, the Group entered into an acquisition agreement with the vendors to purchase two tranches of 7.5% of the registered capital of Yongcheng each at a consideration of RMB22.5 million (the "Further Acquisition") on 26 July 2017 and 22 June 2018 respectively.

Upon completion of the Further Acquisition, 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.

In December 2018, the Group successfully acquired 75% equity interest of 杭州安嘉物業管理有限公司(Hangzhou Anjia Property Management Company Limited*) ("Hangzhou Anjia") from 杭州市居住區發展中心有限公司(Hangzhou Residential Area Development Center Company Limited*) , which is a state-owned enterprise, at a consideration of RMB18.1 million. Hangzhou Anjia is a PRC property management company located in Hangzhou with 27 properties and approximately 2.1 million sq.m. of GFA under its management.

As disclosed in the Company's announcement dated 26 February 2019, the Group entered into the Capital Injection Agreement pursuant to which the Group agreed to make a capital injection in total amount of RMB56.3 million into 蘇州工業園區建屋物業發展有限公司 (Suzhou Industrial Park House Construction Property Development Company Limited*) ("Suzhou House Construction") and subscribe for 66% of the enlarged registered capital in Suzhou House Construction. Suzhou House Construction is a PRC property management company located in Suzhou with 30 properties and approximately 3.7 million sq.m. of GFA under its management. Upon the completion of Capital Injection, the Capital Injection Amount will be applied by Suzhou House Construction as its working capital and for its business development.

It is expected that (i) the introduction of the Group as a strategic investor of both Hangzhou Anjia and Suzhou House Construction will have positive effect to the profit and growth of Hangzhou Anjia and Suzhou House Construction; (ii) the investment in Hangzhou Anjia and Suzhou House Construction and with their respective state-owned enterprise background will enhance the exploration and development of new business of the Group. It will also enhance the Group's exposure, experience and reputation in the market as well as the overall competitiveness of the Group for property management projects in the future; and (iii) it will provide the Group with investment opportunities to broaden its income stream, increase the reserved area for the property management services business of the Group, further enhance the value of the Group and maximise the returns to the Shareholders.

FINANCIAL PERFORMANCE REVIEW

Revenue

During the year ended 31 December 2018, the Group recorded revenue of RMB1,023.0 million, representing an increase of 4.7% over the year 2017.

Breakdown of Revenue by business line and services

	For the year ended 31 December			
	2018	2017	**Change**	
	RMB'000	*RMB'000*	*RMB'000*	*%*
Property management business				
— Property management services	**948,343**	910,941	37,402	4.1
— Sale assistance services	**41,503**	43,187	(1,684)	-3.9
— Other services	**33,165**	23,424	9,741	41.6
	1,023,011	977,552	45,459	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 service are as follows:

Property management services

Revenue from property management services increased by RMB37.4 million or 4.1% over 2017 primarily due to organic growth in the Group's existing property management services business as a result of increase in the delivered contracted GFA by 2.3 million sq.m.

Sales assistance services

Revenue from the sale assistance services for the year ended 31 December 2018 was RMB41.5 million, comparing to RMB43.2 million in 2017, representing a decrease of RMB1.7 million, or 3.9%. The decrease in revenue from the sales assistance services was primarily due to the decrease in the number of projects from 66 in 2017 to 65 in 2018 and the slightly decrease in average revenue of each project from approximately RMB654,000 for the year ended 31 December 2017 to approximately RMB638,500 for the year ended 31 December 2018.

Other services

Revenue from other services and sales of goods during the year ended 31 December 2018 was RMB33.2 million (2017: RMB23.4 million). This service primarily consists of the provision of engineering and catering services, and the sales of engineering spare parts. The increase in revenue of this service was mainly due to increase in the needs of clients.

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) repair and maintenance expenses, and 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 7.8% from RMB664.0 million for the year ended 31 December 2017 to approximately RMB715.5 million for the year ended 31 December 2018. The increase was primarily due to (i) the increase in staff costs and sub-contracting costs were mainly attributable to increase in the average salary of the employees of the Group and workers of sub-contractors; (ii) the increase in repair and maintenance expenses were mainly attributable to improve the living environment of the communities under the Group's management; and (iii) the expansion of the Group's business scale.

Costs of other services for the year ended 31 December 2018 was RMB25.5 million (2017: RMB16.7 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.

Gross Profit and Gross Profit Margin

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

	For the year ended 31 December			
	2018		2017	
	RMB'000	***% of revenue***	*RMB'000*	*% of revenue*
Property management business				
— Property management services	**259,748**	**27.4**	274,127	30.1
— Sale assistance services	**14,646**	**35.3**	15,979	37.0
— Other services and sales of goods	**7,711**	**23.3**	6,731	28.7
Overall	**282,105**	**27.6**	296,837	30.4

The Group's gross profit for the year ended 31 December 2018 was RMB282.1 million, comparing to RMB296.8 million in 2017, representing a decrease of RMB14.7 million, or 5.0%. The Group's gross profit margin decrease from 30.4% for the year ended 31 December 2017 to 27.6% in 2018. The decrease was primarily due to the net effect of (i) increased economies of scale as multiple phases of the same properties were delivered and became revenue-bearing; (ii) termination of property management services to certain residential properties as the profitability of these properties did not meet the Group's expectations; (iii) the increase in staff costs and sub-contracting costs which were mainly attributable to increase in the average salary of the employees of the Group and workers of sub-contractors; and (iv) the increase in repair and maintenance expenses were mainly attributable to improve the living environment of the communities under the Group's management.

Other Income and Gains

The Group's other income and gains for the year ended 31 December 2018 was RMB30.8 million, comparing to RMB20.6 million in 2017, representing an increase of RMB10.2 million, or 49.5%. The increase was primarily due to (i) the increase in net exchange gain of RMB1.4 million; (ii) the increase in bank interest income of RMB1.1 million; (iii) the increase in gain on disposal of financial assets at fair value through profit or loss of RMB2.8 million; (iv) the increase the gain on disposal of a joint venture of RMB1.5 million; and (v) the increase in rental income of RMB2.1 million.

Selling and Marketing Expenses

The Group's selling and marketing expenses for the year ended 31 December 2018 was RMB5.5 million, comparing to RMB6.4 million in 2017, representing a decrease of RMB0.9 million, or 14.1%. The decrease was primarily due to the Group impose cost control on selling and marketing expenses.

Administrative Expenses

The Group's administrative expenses for the year ended 31 December 2018 was RMB151.1 million, comparing to RMB115.1 million in 2017, representing an increase of RMB36.0 million, or 31.3%. The increase was primarily due to the net effect of (i) the reversal of share-based payment expense of a subsidiary of RMB13.0 million in the corresponding period; (ii) the reversal of share-based payment expense of the Company of RMB3.2 million in the corresponding period; (iii) the increase in directors' emoluments of RMB4.6 million; (iv) the increase in the salaries of RMB5.8 million for newly added project managers for better coordination of community affairs; (v) the increase in average salary of the employees of the Group; and (vi) the expansion of the Group's business scale.

Net Impairment Losses Reversal/Recogised on Financial Assets

The Group's reversal of impairment losses on financial assets was RMB1.7 million, comparing to provision for impairment losses on financial assets of RMB29.5 million in 2017, representing a decrease of RMB31.2 million in the provision for impairment losses on financial assets. The decrease was primarily due to better collection on trade and bills receivables.

Other Expenses

The Group's other expenses for the year ended 31 December 2018 was RMB1.6 million, comparing to RMB10.3 million in 2017, representing a decrease of RMB8.7 million, or 84.5%. The decrease was primarily due to the decrease in net exchange loss of RMB8.7 million.

Finance Costs

The Group's finance costs decreased from RMB9.5 million for the year ended 31 December 2017 to RMB1.8 million for the year ended 31 December 2018. The decrease was primarily due to (i) the reversal of imputed interest expenses on consideration payable which had been recorded as an interest expense for the year ended 31 December 2017; and (ii) the reversal of imputed interest expenses on non-current liabilities for cash-settled share-based payments which has been included as a credit in the finance cost in the corresponding period.

Income Tax Expenses

The Group's income tax expense for the year ended 31 December 2018 was RMB50.4 million. The Group's effective tax rate decrease from 33.5% for the year ended 31 December 2017 to 32.1% in 2018, which was primarily due to the decrease of non-deductible expenses.

Goodwill

As at 31 December 2018, the Group recorded goodwill of RMB155.5 million, representing an increase of 47.3% 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 Yongcheng; (iii) the goodwill of RMB24.9 million in relation to the acquisition of Enlightening Excess Limted; (iv) the goodwill of RMB3.0 million in relation to the acquisition of 上海湯年清潔服務有限公司 (Shanghai Tangnian Cleaning Service Company Limited*); (v) the goodwill of RMB6.7 million in relation to the acquisition of 桂林港深物業服務有限公司 (Guilin Gangshen Property Services Company Limited*); and (vi) the goodwill of RMB15.0 million in relation to the acquisition of Hangzhou Anjia. 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 2018 reached the management's expectation, 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 property management services income.

As at 31 December 2018, total trade and bills receivables of the Group amounted to approximately RMB207.8 million, representing an increase of approximately RMB16.9 million compared to approximately RMB190.9 million as at 31 December 2017. The increase was primarily due to (i) the increase of RMB7.9 million after the acquisition of cleaning and gardening companies, and Hangzhou Anjia in 2018; and (ii) the expansion of the Group's business scale.

The Group's trade receivables turnover days for the year ended 31 December 2018 was 71 days (year ended 31 December 2017: 65 days).

Prepayments and Other Receivables

Prepayments and other receivables primarily comprise payment on behalf of customers to utility suppliers, prepayments, deposits paid to utility suppliers and other receivables.

As at 31 December 2018, the Group's prepayments and other receivables amounted to approximately RMB196.5 million, representing an increase of approximately of RMB84.2 million compared to approximately RMB112.3 million as at 31 December 2017. The increase was primarily due to (i) the increase of RMB36.3 million after the acquisition of Hangzhou Anjia in December 2018; (ii) the increase in payment on behalf of residents for construction of public facilities of RMB7.6 million; (iii) the increase in bid bond for tenders of RMB6.8 million; (iv) the increase in payment on behalf of residents for repair and maintenance of public facilities of RMB13.0 million; and (v) the expansion of the Group's business scale.

Trade Payables

Trade payables primarily comprise payables to sub-contractors of the Group's property management services. Trade payables increased from approximately RMB45.0 million as at 31 December 2017 to approximately RMB47.7 million as at 31 December 2018. This was primarily due to the expansion of the Group's business scale.

Other Payables and Accruals

Other payables and accruals primarily comprise receipts on behalf of community residents for utilities, contract liabilities, received in advances, accruals, deposits received and other payables. Other payables and accruals increased from approximately RMB386.0 million as at 31 December 2017 to approximately RMB433.3 million as at 31 December 2018. The increase was primarily due to the net effect of (i) the increase of RMB32.6 million in receipts on behalf of community residents for utilities; (ii) the increase of RMB9.6 million in contract liabilities and receipts in advance; (iii) the increase of RMB6.1 million in accruals; (iv) the increase of RMB6.0 million in other payables; (v) the decrease of RMB5.6 million in deposits received; (vi) the increase in amounts due to non-controlling equity holders of a subsidiary of RMB5.2 million; and (vii) the decrease of RMB5.9 million in other tax payables.

Deferred Taxation

As at 31 December 2018 and 2017, the deferred tax asset recognised was mainly attributable to the allowance of doubtful debt of RMB29.3 million and RMB23.4 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 at 31 December 2018, net working capital (calculated as current assets less current liabilities) was RMB171.6 million, representing a decrease of RMB54.6 million from RMB226.2 million as at 31 December 2017. The current ratios (calculated as current assets/current liabilities) are 1.3 times as at 31 December 2018 (2017: 1.4 times).

As at 31 December 2018, the Group had bank borrowings denominated in RMB of RMB20.0 million (2017: RMB23.0 million) which was secured by certain investment properties of the Group and bore interest at fixed-rate. In addition, Hangzhou Anjia's non-controlling equity holder 杭州市居住區發展中心有限公司 (Hangzhou Residential Area Development Centre Company Limited*) has guaranteed certain of the Group's bank loans up to RMB30.0 million (2017: Nil) that bore interest of fixed rates as at the end of the reporting period at nil consideration, and the Group had an unsecured bank borrowing amounting to RMB61.8 million (2017: RMB78.0 million) which was variable-rate and denominated in HK$ as at 31 December 2018.

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 2018, despite the depreciation 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 add amounts due to non-controlling equity holders of a subsidiary and net of bank balances and cash divided by total equity. As at 31 December 2018, the Group was in a strong financial position with a net cash position amounting to RMB293.7 million (2017: RMB377.8 million). Accordingly, no gearing ratio is presented.

Pledge of Assets

At 31 December 2018, investment properties of RMB93.1 million (2017: RMB91.4 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 2018.

Employees and Remuneration Policies

As at 31 December 2018, the Group had approximately 10,000 (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 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

Pursuant to the written resolution of the board of the Company passed on 15 January 2019, the Company issued and granted an aggregate of 6,516,000 new shares to 14 eligible employees of the Group as incentives or rewards for their contribution to the Group at nil consideration.

On 26 February 2019, the Company entered into a capital injection agreement pursuant to which the Company agreed to make a capital injection in total amount of RMB56,300,000 into Suzhou House Construction. Suzhou House Construction is a company established in the PRC with limited liability which is principally engaged in property management. Upon completion, Suzhou House Construction will become a 66%-owned subsidiary of the Company.

At 29 March 2019, the board of directors has resolved to recommend the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2018 (2017: 5.0 cents) to the shareholders whose names appear on the register of members of the Company on 6 June 2019. 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 20 June 2019. 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.

In December 2018, the Group entered into an acquisition agreement to purchase 60% of equity interests in 廣東銘錦城園林景觀設計工程有限公司 (Guangdong Ming-King-City Landscape Architecture Co. Ltd*) (“Ming-King-City”) from an independent third party at a total consideration of RMB9,000,000. The transaction was completed in January 2019.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

As disclosed in the Company's announcement dated 26 June 2018, the Group enter into the Agreement with the Vendors of 廣西輝煌置業諮詢服務有限公司 (Guangxi Huihuang Property Advisory Services Company Limited*) ("**Huihuang Property**") and 廣西輝煌房地產諮詢服務集團有限公司 (Guangxi Huihuang Real Estate Advisory Services Group Company Limited*) ("**Huihuang Real Estate**"), pursuant to which the Group agreed to acquire and the Vendors agreed to sell 51% equity interest in Huihuang Property and 51% equity interest in Huihuang Real Estate ("**Sale Capital**") at an aggregate consideration of (i) RMB30,000,000 payable by the Group in cash (subject to adjustment); and (ii) not more than RMB70,000,000 payable by the Group in cash to the First Vendor upon satisfaction of the Profit Guarantee. As at the date of this announcement, the above transaction has not yet been completed.

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 2018.

Save as disclosed above in this Announcement, at 31 December 2018, 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 HK2.5 cents per share for the year ended 31 December 2018 (2017: 5.0 cents) to the shareholders whose names appear on the register of members of the Company on 6 June 2019, making the total dividend payment of approximately HK$20.4 million. Subject to the approval by the shareholders of the Company at the forthcoming AGM, the final dividend is expected to be payable on or about 20 June 2019. 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 29 May 2019 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 Wednesday, 29 May 2019. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 24 May 2019 to Wednesday, 29 May 2019, 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 Thursday, 23 May 2019.

To ascertain the entitlement to the proposed final dividend for the year ended 31 December 2018, the register of members of the Company will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019, 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 2018, 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 Monday, 3 June 2019.

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 2018, 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.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.

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 2018 have been reviewed by the Audit Committee.

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

During the year ended 31 December 2018, no shares were repurchased.

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 2018.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the Announcement have been agreed with by the Group's auditor, Ernst & Young, Certified Public Accountants ("Ernst & Young") to the amounts set out in the Group's audited financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary Announcement.

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 2018 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, 29 March 2019

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.

* *for identification purpose only*