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中奧到家
更好 更美 更滿意

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

SUMMARY

	Six months ended 30 June		
	2020	2019	**Change**
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Revenue	**839,078**	655,608	28.0%
Gross profit	**233,738**	201,448	16.0%
Net profit	**75,111**	58,206	29.0%
Profit attributable to owners of the parent	**62,635**	52,188	20.0%
Gross profit margin (%)	**27.9%**	30.7%	-2.8pp
Net profit margin (%)	**9.0%**	8.9%	+0.1pp
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted			
— For profit for the period (RMB)	**0.076**	0.064	18.8%

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 2020, together with the comparative figures for the corresponding period in 2019, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		For the six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**839,078**	655,608
Cost of sales and services		**(605,340)**	(454,160)
GROSS PROFIT		**233,738**	201,448
Other income and gains		**26,872**	16,946
Selling and distribution expenses		**(6,379)**	(4,102)
Administrative expenses		**(101,231)**	(97,407)
Impairment losses on financial and contract assets, net		**(37,725)**	(23,649)
Share of profits and losses of:			
Joint ventures		**1,786**	1,655
Associates		**366**	148
Other expenses		**(461)**	(1,270)
Finance costs		**(8,847)**	(7,295)
PROFIT BEFORE TAX	*6*	**108,119**	86,474
Income tax expenses	*7*	**(33,008)**	(28,268)
PROFIT FOR THE PERIOD		**75,111**	58,206
Attributable to:			
Owners of the parent		**62,635**	52,188
Non-controlling interests		**12,476**	6,018
		75,111	58,206
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
— For profit for the period (RMB)	*9*	**0.076**	0.064

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**75,111**	58,206
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Revaluation gains on transfer from property and equipment to investment properties	**525**	–
Income tax effect	**(131)**	–
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**394**	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**394**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**75,505**	58,206
Attributable to:		
Owners of the parent	**63,029**	52,188
Non-controlling interests	**12,476**	6,018
	75,505	58,206

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property and equipment		**94,468**	55,228
Investment properties	*10*	**185,736**	183,309
Right-of-use assets		**39,931**	46,769
Prepayments for acquisition of properties	*11*	**15,733**	55,839
Goodwill		**324,069**	248,315
Other intangible assets		**82,912**	89,176
Investments in joint ventures		**4,952**	3,166
Investments in associates		**4,944**	4,578
Long-term deposits		**5,179**	4,984
Deferred tax assets		**68,223**	60,360
Total non-current assets		**826,147**	751,724
CURRENT ASSETS			
Inventories		**3,932**	2,224
Trade and bills receivables	*12*	**526,938**	332,260
Contract assets		**–**	59,650
Prepayments, deposits and other receivables	*13*	**317,766**	288,232
Financial assets at fair value through profit or loss		**34,901**	2,536
Cash and cash equivalents		**423,039**	458,000
Total current assets		**1,306,576**	1,142,902
CURRENT LIABILITIES			
Trade payables	*14*	**105,554**	136,890
Other payables and accruals	*15*	**814,269**	645,147
Interest-bearing bank and other borrowings		**134,530**	82,965
Lease liabilities		**25,870**	24,518
Deferred liabilities		**–**	3,820
Tax payable		**130,090**	125,871
Total current liabilities		**1,210,313**	1,019,211
NET CURRENT ASSETS		**96,263**	123,691
TOTAL ASSETS LESS CURRENT LIABILITIES		**922,410**	875,415

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
30 June 2020

	Notes	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**47,597**	47,570
Lease liabilities		**16,324**	22,773
Deferred tax liabilities		**26,333**	26,848
Other long-term payables		**18,141**	40,299
Total non-current liabilities		**108,395**	137,490
NET ASSETS		**814,015**	737,925
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital		**7,082**	6,745
Reserves		**735,623**	671,686
		742,705	678,431
Non-controlling interests		**71,310**	59,494
TOTAL EQUITY		**814,015**	737,925

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

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, sales assistance services, provision of cleaning and greening services, and provision of real estate agency services in the People's Republic of China (the "**PRC**"). 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. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions (early adopted)*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The application of the Amendments to Reference to the Conceptual Framework in HKFRS standards and amendments to the HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior period and/or on the disclosures set out in these condensed consolidated financial statements. Amendments to HKAS1 and HKAS8 clarify that materiality will depend on the nature or magnitude of information.

4. OPERATING SEGMENT INFORMATION

Operating segments

The following table provides an analysis of the Group's revenue and results based on the types of business:

	Property management business *RMB'000*	Sales assistance business *RMB'000*	Cleaning and greening business *RMB'000*	Real estate agency business *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2020						
Segment revenue						
External sales	**592,897**	**24,199**	**17,883**	**154,631**	**49,468**	**839,078**
Intersegment sales	**2,503**	**–**	**45,734**	**–**	**46,865**	**95,102**
Reconciliation						
Elimination of intersegment sales	**(2,503)**	**–**	**(45,734)**	**–**	**(46,865)**	**(95,102)**
Total revenue	**592,897**	**24,199**	**17,883**	**154,631**	**49,468**	**839,078**
Segment results	**84,524**	**9,159**	**10,547**	**20,000**	**6,690**	**130,920**
Reconciliation:						
Bank interest income						**2,297**
Other interest income of financial assets at fair value through profit or loss						**1,377**
Change in fair value of investment properties						**(511)**
Change in fair value of financial assets/ liabilities at fair value through profit or loss						**2,643**
Net foreign exchange gains						**1,370**
Gain on disposal of a subsidiary						**1,520**
Corporate expenses						**(24,802)**
Share of profits of joint ventures						**1,786**
Share of profits of associates						**366**
Finance costs (other than interest on lease liabilities)						**(8,847)**
Profit before tax						**108,119**

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segments (Continued)

	Property management business *RMB'000*	Sales assistance business *RMB'000*	Cleaning and greening business *RMB'000*	Real estate agency business *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2019						
Segment revenue						
External sales	547,709	21,908	12,905	38,088	34,998	655,608
Intersegment sales	–	–	48,521	–	4,152	52,673
Reconciliation						
Elimination of intersegment sales	–	–	(48,521)	–	(4,152)	(52,673)
Total revenue	547,709	21,908	12,905	38,088	34,998	655,608
Segment results	99,940	9,223	6,663	3,640	1,988	121,454
Reconciliation:						
Bank interest income						659
Investment income of financial assets at fair value through profit or loss						823
Changes in fair value of investment properties						3,100
Change in fair value of financial assets/ liabilities at fair value through profit or loss						(246)
Net foreign exchange gains						1,887
Corporate expenses						(30,998)
Share-based payment expense						(4,713)
Share of profits of a joint venture						1,655
Share of profits of an associate						148
Finance cost (other than interest on lease liabilities)						(7,295)
Profit before tax						86,474

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Operating segments (Continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2020 and 31 December 2019, respectively.

	Property management business *RMB'000*	**Sales assistance business** *RMB'000*	**Cleaning and greening business** *RMB'000*	**Real estate agency business** *RMB'000*	**Other businesses** *RMB'000*	**Total** *RMB'000*
Segment assets						
30 June 2020 (unaudited)	1,927,302	57,264	106,029	285,377	160,828	2,536,800
Reconciliation:						
Elimination of intersegment receivables						(1,046,581)
Corporate and other unallocated assets						642,504
Total assets						2,132,723
Segment liabilities						
30 June 2020 (unaudited)	659,913	29,797	80,774	183,471	134,263	1,088,218
Reconciliation:						
Elimination of intersegment payables						(1,046,581)
Corporate and other unallocated liabilities						1,277,071
Total liabilities						1,318,708

	Property management business *RMB'000*	Sales assistance business *RMB'000*	Cleaning and greening business *RMB'000*	Real estate agency business *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Segment assets						
31 December 2019 (audited)	1,599,992	37,921	63,678	250,665	85,110	2,037,366
Reconciliation:						
Elimination of intersegment receivables						(838,616)
Corporate and other unallocated assets						695,876
Total assets						1,894,626
Segment liabilities						
31 December 2019 (audited)	694,890	21,010	22,293	134,144	87,255	959,592
Reconciliation:						
Elimination of intersegment payables						(838,616)
Corporate and other unallocated liabilities						1,035,725
Total liabilities						1,156,701

5. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**839,078**	655,608

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2020

Segments	**Property management business** *RMB'000*	**Sales assistance business** *RMB'000*	**Cleaning and greening business** *RMB'000*	**Real estate agency business** *RMB'000*	**Other businesses** *RMB'000*	**Total** *RMB'000*
Types of goods or services						
Rendering of services	**592,897**	**24,199**	**17,883**	**154,631**	**40,295**	**829,905**
Sales of products	**–**	**–**	**–**	**–**	**9,173**	**9,173**
Total revenue from contracts with customers	**592,897**	**24,199**	**17,883**	**154,631**	**49,468**	**839,078**
Geographical market						
Mainland China	**592,897**	**24,199**	**17,883**	**154,631**	**49,468**	**839,078**
Timing of revenue recognition						
Revenue recognized over time	**585,031**	**24,199**	**17,883**	**–**	**40,295**	**667,408**
Revenue recognized at a point of time	**7,866**	**–**	**–**	**154,631**	**9,173**	**171,670**
Total revenue from contracts with customers	**592,897**	**24,199**	**17,883**	**154,631**	**49,468**	**839,078**

5. REVENUE (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the six months ended 30 June 2019

Segments	Property management business *RMB'000*	Sales assistance business *RMB'000*	Cleaning and greening business *RMB'000*	Real estate agency business *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Types of goods or services						
Rendering of services	547,709	21,908	12,905	38,088	28,258	648,868
Sales of products	–	–	–	–	6,740	6,740
Total revenue from contracts with customers	547,709	21,908	12,905	38,088	34,998	655,608
Geographical market						
Mainland China	547,709	21,908	12,905	38,088	34,998	655,608
Timing of revenue recognition						
Revenue recognized over time	521,672	21,908	12,905	–	28,258	584,743
Revenue recognized at a point of time	26,037	–	–	38,088	6,740	70,865
Total revenue from contracts with customers	547,709	21,908	12,905	38,088	34,998	655,608

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

For the six months ended 30 June 2020

Segments	**Property management business** ***RMB'000***	**Sales assistance business** ***RMB'000***	**Cleaning and greening business** ***RMB'000***	**Real estate agency business** ***RMB'000***	**Other businesses** ***RMB'000***	**Total** ***RMB'000***
Revenue from contracts with customers						
External customers	**592,897**	**24,199**	**17,883**	**154,631**	**49,468**	**839,078**
Intersegment sales	**2,503**	**–**	**45,734**	**–**	**46,865**	**95,102**
Intersegment adjustments and eliminations	**(2,503)**	**–**	**(45,734)**	**–**	**(46,865)**	**(95,102)**
Total revenue from contracts with customers	**592,897**	**24,199**	**17,883**	**154,631**	**49,468**	**839,078**

5. REVENUE (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the six months ended 30 June 2019

Segments	Property management business *RMB'000*	Sales assistance business *RMB'000*	Cleaning and greening business *RMB'000*	Real estate agency business *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Revenue from contracts with customers						
External customers	547,709	21,908	12,905	38,088	34,998	655,608
Intersegment sales	–	–	48,521	–	4,152	52,673
Intersegment adjustments and eliminations	–	–	(48,521)	–	(4,152)	(52,673)
Total revenue from contracts with customers	547,709	21,908	12,905	38,088	34,998	655,608

6. PROFIT BEFORE TAX

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

	Notes	For the six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost of services provided		**602,874**	451,165
Cost of goods sold		**2,466**	2,995
Employee benefit expense (excluding compensation to key management personnel)			
Salaries and other benefits		**282,196**	231,497
Retirement benefit scheme contributions		**3,803**	10,234
Share-based payment expenses of the Company		**–**	4,713
		285,999	246,444
Depreciation of property and equipment		**9,198**	8,410
Depreciation of right-of-use assets		**11,415**	3,345
Amortisation of other intangible assets		**6,641**	6,912
Impairment of trade and bills receivables		**31,312**	22,340
Impairment of prepayments, deposits and other receivables	*13*	**6,413**	817
Impairment of contract assets		**–**	492
Fair value losses/(gains) on investment properties	*10*	**511**	(3,100)
Gross rental income		**(1,988)**	(3,014)
Foreign exchange gains		**(1,370)**	(1,887)
Change in fair value of financial assets/liabilities at fair value through profit or loss		**(2,643)**	246
Interest income		**(2,297)**	(659)
Other interest income of financial assets at fair value through profit or loss		**(1,377)**	(823)
Government grants		**(13,810)**	(6,054)
Gain on disposal of a subsidiary		**(1,520)**	–
Loss on disposal of items of property and equipment		**41**	318

7. 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 2020 (six months ended 30 June 2019: 25%) on the assessable profits of the Group's subsidiaries in Mainland China.

The Company incorporated in the Cayman Islands and the subsidiaries incorporated in the 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 the British Virgin Islands.

No provision for Hong Kong profits tax has been made in the financial statements as no assessable profit was derived from Hong Kong for the six months ended 30 June 2020 and 2019.

7. 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current — Mainland China:		
Charge for the period	**43,915**	33,853
Deferred tax	**(10,907)**	(5,585)
Total tax charge for the period	**33,008**	28,268

8. DIVIDENDS

During the six months ended 30 June 2020, a dividend of HKD2.75 cents per share in respect of the year ended 31 December 2019 was declared by the directors of the Company and approved in the Company's annual general meeting on 29 May 2020. Dividends amounting to RMB20,534,000 were paid during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB18,209,000).

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 six months ended 30 June 2020 and 2019, and the weighted average number of ordinary shares in issue during the period, as adjusted to reflect the issue during the period.

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**62,635**	52,188
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**819,879,000**	817,033,000

The computation of diluted earnings per share for the six months ended 30 June 2020 and 2019 has not included the exercise of the share options of the Company since the exercise prices of the share options were higher than the average market prices of the Company's shares during the periods ended 30 June 2020 and 2019.

10. INVESTMENT PROPERTIES

	RMB'000 (Unaudited)
At 1 January 2020	183,309
Transfer from property and equipment	2,294
Additions	644
Net losses from fair value adjustments *(note 6)*	(511)
At 30 June 2020	185,736

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 2020. 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 was performed.

The Group's investment properties with a carrying value of RMB149,111,000 (2019: RMB146,431,000) were pledged to secure general banking facilities granted to the Group as at 30 June 2020.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 30 June 2020 using			
Recurring fair value measurement for:	**Quoted prices in active markets (Level 1)** ***RMB'000***	**Significant observable inputs (Level 2)** ***RMB'000***	**Significant unobservable inputs (Level 3)** ***RMB'000***	**Total** ***RMB'000***
Investment properties	**–**	**–**	**185,736**	**185,736**

	Fair value measurement as at 31 December 2019 using			
Recurring fair value measurement for:	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Investment properties	–	–	183,309	183,309

10. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (Continued)

During the six months ended 30 June 2020 and the year ended 31 December 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range 2020	Range 2019
Residential properties	Direct comparison method	Market unit price per square metre (RMB'000/sq.m)	**7 to 24**	7 to 24

A significant increase in the market unit price per square metre would result in a significant increase in the fair value of the investment properties.

11. PREPAYMENTS FOR ACQUISITION OF PROPERTIES

As at 30 June 2020, the Group had prepayments of RMB15,733,000 (31 December 2019: RMB55,839,000) in relation to the acquisition of properties situated in Mainland China from property developers. The acquisitions of certain properties were completed during the six months ended 30 June 2020 and the related prepayments of RMB46,576,000 were transferred to property and equipment. The Group has paid RMB7,796,000 for acquisition of new properties in 2020.

12. TRADE AND BILLS RECEIVABLES

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

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Within 30 days	**103,622**	30,111
Over 30 days and within 90 days	**112,989**	63,052
Over 90 days and within 180 days	**133,817**	68,032
Over 180 days and within 365 days	**85,502**	74,029
Over one year	**91,008**	97,036
	526,938	332,260

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Payment on behalf of customers to utility suppliers	**127,867**	109,847
Prepayments	**48,009**	64,675
Deposits paid to utility suppliers	**27,460**	27,573
Taxes recoverable	**864**	2,470
Other receivables	**146,668**	121,411
	350,868	325,976
Less: Impairment allowance	**(33,102)**	(37,744)
Total	**317,766**	288,232

Deposits and other receivables mainly represent performance bond, bidding deposits for contracts and employee loans. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there are no comparable companies as at 30 June 2020 ranged from 3% to 27% (2019: 3% to 30%).

14. TRADE PAYABLES

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

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Less than one year	**101,199**	129,167
Over one year	**4,355**	7,723
	105,554	136,890

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

15. OTHER PAYABLES AND ACCRUALS

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Contract liabilities	**168,554**	123,057
Receipts on behalf of community residents for utilities	**265,998**	238,681
Accruals and other payables	**136,539**	155,647
Deposits received	**62,449**	56,210
Other payable for an option	**22,500**	22,500
Receipts in advance	**3,462**	–
Dividend payable	**12,967**	–
Amounts due to non-controlling equity holders of subsidiaries	**124,040**	25,602
Other tax payables	**17,760**	23,450
	814,269	645,147

As at 30 June 2020, the Group's other payables and accruals included amounts due to non-controlling equity holders of subsidiaries which are 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is a leading and fast-growing independent property management service provider in China. In 2019, the Group was rated 2019十大物業服務企業上市公司 (2019 Top 10 Listed Company of Property Management Service*) by 中國物業管理協會 (China Property Management Institute*), 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 30 June 2020, the Group had a total contracted gross floor area ("**GFA**") of approximately 71.8 million square meters ("sq.m."), where it was contracted to manage 588 properties across 45 cities in China.

The Group is engaged in the provision of property management services, sales assistance services, provision of cleaning and greening services, provision of real estate agency services, and other services. The Group strives to provide more services and create more value for property owners and customers through diversified property management with its value-added services package. The Group adheres to the philosophy of "More wonderful, more well-being, more satisfactory 更美，更好，更滿意" to provide the best quality services to the customers.

Since the outbreak of COVID-19 in the communities in early 2020, the Group as a property service operator, has taken all-round measures to prevent and control epidemic from resource supply, disinfection and protection, publicity, to closed management, and implemented joint prevention and control measures, established a tight line of defense for group prevention and strictly controlled community entry and exit, and executed access control and epidemic prevention. All employees resumed works in a safe and orderly manner while the Group was fighting against the epidemic, thus ensuring both operations and fighting against the epidemic simultaneously.

Property management business

The Group primarily provides property developers and property owners with a broad range of property management businesses 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 guard, 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 educational institutions and commercial complex.

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 CMS 31950, IEC 27001, ISO 50001, ISO 9001, ISO 14001, OHSAS 18001 and level one property management qualification certificate.

* *for identification purpose only*

Sales assistance business

The Group provides property developers with sales assistance businesses 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 serve 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.

Cleaning and greening business

The Group provides property developers and property owners with a series of indoor and outdoor environmental cleaning, greening and maintenance. This business division also provides services to the property developers and property owners of the property management business division. Accordingly, segment result of cleaning and greening division is evaluated by the Group's management on services as subcontracted from the property management business division. The Group holds various qualifications and licenses in respect of cleaning services, namely 國家一級環衛清潔服務企業資質 (national level one environmental hygiene cleaning service qualification*), E315甲級高空外牆清洗服務企業 (E315 A Grade high-altitude exterior wall cleaning services enterprise*), ISO 14001, ISO 9001 and ISO 45001.

Real estate agency business

The Group provides property developers and property owners with agency businesses on the leasing and sales assistance of residential properties and retail units.

Other businesses

Other businesses comprise engineering services related to elevators, weak-current engineering services, the sale of engineering spare parts, canteen operations and catering services as well as security guard services.

Business Review

Property management business

As at 30 June 2020, the Group had expanded its presence to 45 cities in China where it was contracted to manage a total of 588 residential properties and non-residential premises such as commercial or government buildings with an aggregate contracted GFA of approximately 71.8 million sq.m. Revenue from property management business increased by approximately RMB45.2 million, or 8.3% over the same period in 2019 primarily due to growth in the group's existing property management services business as a result of increase in the delivered contracted GFA and the number of properties under management increased from approximately 58.5 million sq.m. and 502 properties respectively for the six months ended 30 June 2019 to approximately 65.1 million sq.m. and 531 properties respectively for the six months ended 30 June 2020.

* *for identification purpose only*

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 and establish the strategic cooperation with the right property services provider 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 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 2020.

Eastern and Central China	Southern China	Northern China	Western China
1. Changde (1)	27. Cenxi (8)	41. Baotou (5)	45. Lhasa (1)
2. Chongqing (2)	28. Chongzuo (2)	42. Beijing (3)	
3. Chuzhou (4)	29. Foshan (18)	43. Zhangjiakou (3)	
4. Fuyang (1)	30. Guangzhou (10)	44. Tianjin (1)	
5. Hangzhou (60)	31. Guilin (2)		
6. Heze (4)	32. Huizhou (1)		
7. Huai'an (2)	33. Jiangmen (1)		
8. Huanggang (1)	34. Nanning (19)		
9. Huzhou (19)	35. Qingyuan (4)		
10. Jiaxing (1)	36. Sanya (7)		
11. Kaifeng (1)	37. Wenchang (1)		
12. Nanchang (1)	38. Wuzhou (7)		
13. Nantong (12)	39. Zhaoqing (3)		
14. Nanyang (1)	40. Zhongshan (1)		
15. Ningbo (288)			
16. Quzhou (6)			
17. Shanghai (14)			
18. Shaoxing (9)			
19. Suzhou (39)			
20. Táizhou (1)			
21. Wenzhou (7)			
22. Wuxi (9)			
23. Xuancheng (3)			
24. Yueyang (1)			
25. Zhenjiang (3)			
26. Zhoukou (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 2020	
	Sq. m. in thousands	**No.**
Residential properties		
Eastern and Central China[(1)]	**41,845**	**318**
Southern China[(2)]	**13,383**	**62**
Northern China[(3)]	**2,430**	**7**
Subtotal	**57,658**	**387**
Non-residential properties	**7,475**	**144**
Total	**65,133**	**531**

As at 30 June 2020, the Group's contracted GFA of undelivered properties amounted to approximately 6.7 million sq.m. (31 December 2019: 6.6 million sq.m.).

Notes:

(1) Including Changde, Chongqing, Chuzhou, Fuyang, Hangzhou, Huai'an, Huanggang, Huzhou, Jiaxing, Nantong, Ningbo, Quzhou, Shanghai, Shaoxing, Suzhou, Táizhou, Wuxi, Xuancheng, Yueyang, Zhenjiang, and Nanchang.

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

(3) Including Baotou, Beijing, and Zhangjiakou.

Sales assistance business

The Group provides property developers with cleaning, security guard 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 2020 and 30 June 2019, the Group provided sales assistance business to 79 and 59 properties, respectively.

Cleaning and greening business

The Group provides property developers and property owners with the environmental cleaning and landscaping services in China with manpower of not less than 3,010 and 251 services contracts in hand as at 30 June 2020.

Real estate agency business

The Group provides property and real estate customers and investors with real estate information consulting services, real estate brokerage and consulting services, real estate marketing planning, house leasing, real estate investment consulting services as well as agency services for obtaining property ownership certificates since acquisition of Huihuang Real Estate and Huihuang Property in April 2019.

Other businesses

Other businesses include a wide range of all-round business services to property developers and property owners as follows:

(1) The Group provides installation, repairing and maintenance services primarily to the elevators of the properties under management;

(2) The Group provides weak-current engineering services to properties under management;

(3) The Group sells engineering spare parts separately to other elevator servicing companies;

(4) The Group operates canteens in the government buildings and provides catering services as well; and

(5) The Group provides security guard services to the owners and customers of the properties under management.

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 and/or property management service providers 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 and cooperation.

Pursuant to the terms of the Joint Venture Agreement entered between the Group and the vendors in July 2016, the Group will acquire the remaining interests in Zhejiang Yongcheng Property Management Company Limited ("**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 RMB32.0 million. Since the net profit of Yongcheng for the financial year of 2019 has met the profit guarantee provision provided to the Group, the Group entered into acquisition agreements with the vendors on 22 June 2020, to purchase 7.5% of the registered capital of Yongcheng at a consideration of RMB22.5 million.

Upon completion of the above acquisition, the Group holds 100.0% of the registered capital of Yongcheng in which Yongcheng becomes a wholly-owned subsidiary of the Company and its financial results will be fully 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 January 2020, the Group entered into the Property Transfer Agreement with 佛山市順德區陳村鎮康盈投資管理有限公司 (Foshan City Shunde District Chencun Town Kangying Investment Management Company Limited*), to acquire a three-storey office building situated at 佛山市順德區陳村鎮太平洋鼎旺商業中心1501號、1601號及1701號 (Number 1501, 1601 and 1701, Pacific Dingwang Commercial Center, Chencun Town, Shunde District, Foshan City, the PRC*) with a total gross floor area of approximately 3,672.72 square metres at a total consideration of RMB46.1 million.

In June 2020, the Group acquired 51% equity interests in 廣東華瑞環境工程有限公司 (Guangdong Huarui Environmental Engineering Company Limited*) ("**Guangdong Huarui**"), a company established in the PRC with limited liability, for an aggregate consideration of RMB40.0 million. Guangdong Huarui is principally engaged in provision of cleaning services, greening services and maintenance, and outdoor wall cleaning in the PRC.

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In June 2020, the Group entered into a cooperation agreement (the "**Cooperation Agreement**") with Greentown Service Group Co. Ltd. ("**Greentown Service**"), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 2869), pursuant to which the Group and Greentown Service agreed to cooperate comprehensively in areas such as life services and property services business. Greentown Service is a leading high-end residential property management service provider in the PRC with a diversified portfolio comprising property service, consulting service and community living service.

Pursuant to the Cooperation Agreement, the Company and Greentown agreed to jointly establish a life service company (the "**JV Company**") with registered capital of RMB5.0 million, which shall be owned as to 30% by the Company and 70% by Greentown. The Company will inject RMB1.5 million and Greentown will inject RMB3.5 million into the JV Company and Greentown undertook to provide life services products, technology, service systems and professional resources to the JV Company.

Pursuant to the Cooperation Agreement, it was further agreed between the parties that (i) for any property services businesses that Greentown decides not to undertake by reasons of, among others, its service position and cost structure, Greentown agreed to give priority to recommend such businesses to the Company; (ii) within 6 years from the date of the Cooperation Agreement, Greentown agreed to give priority to consider the Company and its affiliates for undertaking Greentown's outsourcing businesses, such as the provision of cleaning, security, maintenance and elevator maintenance services, on the basis that the terms offered by the Company and its affiliates shall not be less favorable than those offered by independent third parties to Greentown and provided that the Company and its affiliates possess the requisite professional qualifications, the quality of services to be provided shall reach the quality standard required by Greentown and the service fees to be charged shall be in line with the prevailing market prices; and (iii) commencing from 1 July 2021 and subject to fulfilment of the foregoing requirements and the relevant requirements under all applicable laws and regulations and the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), Greentown and the Company and/or its affiliates shall enter into the relevant property services agreements for engaging the Company and/or its affiliates to provide the above property services with turnover of the relevant business services of not less than RMB300.0 million per year and with an increment of RMB200.0 million every year since the third year of cooperation.

In August 2020, the Group purchased 100% of equity interests in 濟南快勤服務有限公司 (Jinan Express Service Company Limited*) ("**Jinan Express Service**") at a total consideration of RMB39.7 million. Upon completion, Jinan Express Service will become a wholly owned subsidiary of the Company. Jinan Express Service is principally engaged in indoor cleaning, outdoor cleaning and greening services, shuttle bus, catering, security guard and maintenance services in the PRC.

* *for identification purpose only*

It is expected that (i) acquisition of a new property can have a better working environment to capture the majority of the business lines staff together; (ii) investment in Guangdong Huarui will capture more extensive size cleaning services projects in the PRC; (iii) strategic cooperation with Greentown Service can break through a new era for the Group to step into a higher position in the industry; and (iv) investment in Jinan Express Services will further extend more value adding services on indoor cleaning, outdoor cleaning and greening services, shuttle bus, catering, security guard and maintenance services for the Group.

FINANCIAL PERFORMANCE REVIEW

Revenue

During the six months ended 30 June 2020, the Group recorded revenue of approximately RMB839.1 million, representing a year-on-year increase of 28.0% over the previous period ended 30 June 2019.

Increase in the Group's revenue was primarily attributable to the growth in property management business revenue from approximately RMB547.7 million for the six months ended 30 June 2019 to approximately RMB592.9 million for the six months ended 30 June 2020 and represented 8.3% increase over the corresponding period last year. The Group's revenue segments also brought forth revenue generated from cleaning and greening business of approximately RMB17.9 million for the six months ended 30 June 2020 as compared with approximately RMB12.9 million for the six months ended 30 June 2019, the revenue generated from real estate agency business of approximately RMB154.6 million for the six months ended 30 June 2020 as compared with approximately RMB38.1 million for the six months ended 30 June 2019 and the revenue generated from other businesses of approximately RMB49.5 million for the six months ended 30 June 2020 as compared with approximately RMB35.0 million for the six months ended 30 June 2019.

Breakdown of Revenue by business line and services

For the six months ended 30 June

	2020	2019	**Change**	
	RMB'000	*RMB'000*	*RMB'000*	*%*
Property management business				
— Property management business	**592,897**	547,709	45,188	8.3
— Sales assistance business	**24,199**	21,908	2,291	10.5
Cleaning and greening business	**17,883**	12,905	4,978	38.6
Real estate agency business	**154,631**	38,088	116,543	306.0
Other businesses	**49,468**	34,998	14,470	41.3
	839,078	655,608	183,470	28.0

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 business

Revenue from property management business increased by approximately RMB45.2 million, or 8.3% over the same period in 2019 primarily due to growth in the group's existing property management services business as a result of increase in the delivered contracted GFA and the number of properties under management increased from approximately 58.5 million sq.m. and 502 properties respectively for the six months ended 30 June 2019 to approximately 65.1 million sq.m. and 531 properties respectively for the six months ended 30 June 2020.

Sales assistance business

Revenue from the sales assistance business for the six months ended 30 June 2020 was approximately RMB24.2 million, comparing to approximately RMB21.9 million for the six months ended 30 June 2019, represented an increase of approximately RMB2.3 million, or 10.5%. The increase in revenue from the sales assistance business was due to the increase in the number of projects, where the Group provided sales assistance business on 79 projects for the six months ended 30 June 2020 as compared to 59 projects for the six months ended 30 June 2019.

Cleaning and greening business

Revenue from cleaning and greening business of approximately RMB17.9 million for the six months ended 30 June 2020, comparing to approximately RMB12.9 million for the six months ended 30 June 2019, represented an increase of approximately RMB5.0 million or 38.6% mainly due to stronger demand for cleaning and greening services during the six months period.

Real estate agency business

Increase of approximately RMB116.5 million for the real estate agency business from approximately RMB38.1 million for the six months ended 30 June 2019 to approximately RMB154.6 million for the six months ended 30 June 2020 was mainly due to the acquisition time of 30 April 2019.

Other businesses

Revenue from other businesses increased from approximately RMB35.0 million for the six months ended 30 June 2019 to approximately RMB49.5 million for the six months ended 30 June 2020. The increase of approximately RMB14.5 million or 41.3% over the period was mainly due to addition of revenue generated from security guard services of approximately RMB15.0 million during the period.

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; (iv) costs of other services and sale of goods such as salaries cost of the technicians in the provision of elevator engineering services, weak-current engineering services security guard services; costs of the spare parts sold and operating costs in running the catering services; (v) costs of cleaning and greening products and utensils as well as (vi) commission paid for the real estate and property agency services.

Cost of sales and services increased by 33.3% from approximately RMB454.2 million for the six months ended 30 June 2019 to approximately RMB605.3 million for the six months ended 30 June 2020. The increase was due primarily to the growth of the Group's business and the corresponding increase in the labor costs, sub-contracting costs and costs of other services and sale of goods.

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			
	2020 (Unaudited)		2019 (Unaudited)	
	Gross profit	***Gross profit margin***	*Gross profit*	*Gross profit margin*
	RMB'000	***% of revenue***	*RMB'000*	*% of revenue*
Property management business				
— Property management business and sales assistance business	**176,372**	**28.6**	174,111	33.3
Cleaning and greening business	**2,129**	**11.9**	8,749	14.7
Real estate agency services business	**42,645**	**27.6**	13,657	35.9
Other businesses	**12,592**	**25.5**	4,931	14.1
Total	**233,738**	**27.9**	201,448	30.7

The Group's gross profit for the six months ended 30 June 2020 was approximately RMB233.7 million, comparing to approximately RMB201.4 million for the six months ended 30 June 2019, represented an increase of approximately RMB32.3 million, or 16.0%. The Group's overall gross profit margin decreased from 30.7% for the six months ended 30 June 2019 to 27.9% for the six months ended 30 June 2020. Decrease in gross profit margin was mainly due to increase in labour costs, sub-contracting costs and costs of other services and sale of goods during the period.

Other Income and Gains

The Group's other income and gains for the six months ended 30 June 2020 was approximately RMB26.9 million, which increased by approximately RMB10.0 million as compared to approximately RMB16.9 million for the six months ended 30 June 2019. The increase was mainly due to net effect of increase in government grants of approximately RMB7.8 million from the local government to support the operating Group's subsidiaries to fight against the Covid-19 epidemic.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six months ended 30 June 2020 were approximately RMB6.4 million, comparing to approximately RMB4.1 million for the six months ended 30 June 2019, represented an increase of approximately RMB2.3 million, or 56.1%. The increase was primarily due to the advertising and promotion expenses of approximately RMB0.7 million and other office and selling expenses of approximately RMB1.8 million.

Administrative Expenses

The Group's administrative expenses for the six months ended 30 June 2020 was approximately RMB101.2 million, comparing to approximately RMB97.4 million for the six months ended 30 June 2019, represented an increase of approximately RMB3.8 million, or 3.9%. The increase was primarily due to the net effect of increase in employees' salaries of approximately RMB10.2 million, decrease in travelling expense of approximately RMB1.05 million and share award expenses of approximately RMB4.7 million incurred for the six months ended 30 June 2019 but nil for the six months ended 30 June 2020.

Impairment Losses on Financial and Contract Assets, Net

Impairment losses on financial and contract assets were approximately RMB37.7 million for the six months ended 30 June 2020 as compared with approximately RMB23.6 million for the six months ended 30 June 2019. Such increase was mainly due to longer collection period from the trade and other receivables for the effect of COVID-2019 epidemic. For the six months ended 30 June 2020, the debtors turnover days were approximately 93 days as compared with 65 days for the six months ended 30 June 2019.

Finance Costs

The Group's net finance expenses amounted to approximately RMB8.8 million for the six months ended 30 June 2020 (six months ended 30 June 2019: net finance expenses of approximately RMB7.3 million). The increase was primarily due to higher interest arisen from higher average interest-bearing bank and other borrowings balance for the group's business expansion.

Income Tax Expense

The Group's income tax expense for the six months ended 30 June 2020 was approximately RMB33.0 million, comparing to approximately RMB28.3 million for the six months ended 30 June 2019, the Group's effective tax rate decreased from 32.7% for the six months ended 30 June 2019 to 30.5% for the six months ended 30 June 2020, which was primarily due to higher tax deductible expenses incurred for the period.

Right-of-use Assets

Right-of-use assets of approximately RMB39.9 million mainly represented the interests in leasehold land and buildings as at 30 June 2020 after adoption of HKFRS 16 (as at 31 December 2019: approximately RMB46.8 million). The decrease of approximately RMB6.9 million mainly represented amortisation of the right-of-use assets during the period.

Goodwill

As at 30 June 2020, the Group recorded goodwill of approximately RMB324.1 million, representing an increase of 30.5% as compared with that of approximately RMB248.3 million as at 31 December 2019. The increase in goodwill of the Group was primarily due to goodwill in relation to a number of the acquisition transactions during the period. 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 2020 reached the management's expectation in the first half of 2020, the management of the Group determined that no impairment of goodwill should be recognised.

Trade and Bills Receivables

Trade and bills receivables mainly arose from management and service income from property management services, income from sales assistance service, income from cleaning and greening services as well as real estate agency's business.

As at 30 June 2020, total trade and bills receivables of the Group amounted to approximately RMB526.9 million, representing an increase of approximately RMB194.6 million as compared with approximately RMB332.3 million as at 31 December 2019.

The Group's trade and bills receivables turnover days for the six months ended 30 June 2020 was 93 days (year ended 31 December 2019: 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 2020 are higher than that at the previous year end.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables increased from approximately RMB288.2 million as at 31 December 2019 to approximately RMB317.8 million as at 30 June 2020. The increase of approximately RMB29.6 million or 10.3% was mainly due to increase in payment on behalf of customers to utility suppliers and other receivables.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss of approximately RMB34.9 million mainly represented investment in those financial assets which were fair value of put option and consideration for compensation resulting from business acquisitions in the PRC as at 30 June 2020 (as at 31 December 2019: approximately RMB2.5 million).

Other Payables and Accruals

Other payables and accruals primarily comprise receipts on behalf of community residents for utilities, receipts in advances, and accruals and deposits received. Other payables and accruals increased from approximately RMB645.1 million as at 31 December 2019 to approximately RMB814.3 million as at 30 June 2020, which were primarily attributable to the net effect of (i) the increase of approximately RMB98.4 million in amounts due to non-controlling equity holders of subsidiaries; (ii) the increase of approximately RMB27.3 million in receipts on behalf of community residents for utilities; and (iii) the increase of approximately RMB45.5 million in contract liabilities.

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 cash inflows generated from the operating activities and bank loans. As at 30 June 2020, net working capital (calculated as current assets less current liabilities) was approximately RMB96.3 million which represented a decrease of approximately RMB27.4 million from approximately RMB123.7 million as at 31 December 2019. The current ratios (calculated as current assets/current liabilities) were both 1.1 times as at 30 June 2020 and 31 December 2019.

As at 30 June 2020, all the Group's borrowings were denominated in RMB except for unsecured borrowings amounting to RMB43,377,000 (31 December 2019: RMB42,235,000) which were denominated in HKD. A non-controlling equity holder of a subsidiary of the Company provided a personal guarantee in respect of certain bank loans granted to the Group up to RMB7,750,000 (2019: RMB5,000,000) at nil consideration as at 30 June 2020. The bank borrowing balances of the Group bore interest at floating rates, except for bank and other borrowings of RMB134,000,000 at 30 June 2020 (31 December 2019: RMB88,300,000) that bore interest at fixed rates. The carrying amounts of the interest-bearing bank borrowings approximate to their fair values.

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 2020, 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 2020, the Group was in a strong financial position with a net cash position amounting to approximately RMB116.9 million (31 December 2019: approximately RMB301.9 million). Accordingly, no gearing ratio is presented.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2020.

Employees and Remuneration Policies

As at 30 June 2020, excluding the employees under commission basis and employees under the subcontracting contracts, the Group had approximately 9,360 (31 December 2019: 9,065) 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 2020 (six months ended 30 June 2019: nil). The Board will consider to declare final dividend if the annual results of the Group for the year ending 31 December 2020 are 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 2020, 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

In August 2020, the Group entered into an agreement to purchase 100% of equity interests in 濟南快勤服務有限公司 (Jinan Express Service Company Limited*) ("**Jinan Express Service**") from an independent third party at a total consideration of RMB39.7 million. Upon completion, Jinan Express Service Company Limited will become a wholly owned subsidiary of the Company.

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 2020.

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 2020 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 2020 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 2020. In addition, the Group had no significant investments held during the six months ended 30 June 2020.

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

During the six months ended 30 June 2020, neither the Company, nor any of its subsidiaries repurchased, redeemed or sold any of the Company's listed securities.

* *for identification purpose only*

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 2020 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, 28 August 2020

As at the date of this announcement, the Board comprises Mr. Liu Jian, Ms. Chen Zhuo, Mr. Liang Bing and Mr. Long Weimin as executive Directors, Mr. Wu Zhihua and Ms. Jin Keli as non-executive Directors, and Mr. Zhang Weilun, Mr. Chan Wai Cheung, Admiral, Mr. Chan Ka Leung, Kevin and Mr. Huang Anxin as independent non-executive Directors.