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Zhong Ao Home Group Limited

中奧到家集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1538)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

SUMMARY			
	Six months ended 30 June		Change
	2021	2020	
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Revenue	931,704	839,078	11.0%
Gross profit	242,942	233,738	3.9%
Net profit	82,831	75,111	10.3%
Profit attributable to owners of the parent	68,978	62,635	10.1%
Gross profit margin (%)	26.1%	27.9%	-1.8pp
Net profit margin (%)	8.9%	9.0%	-0.1pp
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted			
— For profit for the period (RMB)	0.081	0.076	6.6%

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 2021, together with the comparative figures for the corresponding period in 2020, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		For the six months ended 30 June	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	5	931,704	839,078
Cost of sales and services		(688,762)	(605,340)
GROSS PROFIT		242,942	233,738
Other income and gains		19,964	26,872
Selling and distribution expenses		(7,613)	(6,379)
Administrative expenses		(114,766)	(101,231)
Impairment losses on financial and contract assets, net		(19,259)	(37,725)
Share of profits and losses of:			
Joint ventures		2,432	1,786
Associates		519	366
Other expenses		(4,484)	(461)
Finance costs		(5,060)	(8,847)
PROFIT BEFORE TAX	6	114,675	108,119
Income tax expenses	7	(31,844)	(33,008)
PROFIT FOR THE PERIOD		82,831	75,111
Attributable to:			
Owners of the parent		68,978	62,635
Non-controlling interests		13,853	12,476
		82,831	75,111
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
— For profit for the period (RMB)	9	0.081	0.076

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	82,831	75,111
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	695	525
Income tax effect	(174)	(131)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	521	394
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	521	394
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	83,352	75,505
Attributable to:		
Owners of the parent	69,499	63,029
Non-controlling interests	13,853	12,476
	83,352	75,505

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2021

		30 June 2021	31 December 2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property and equipment		115,343	112,232
Investment properties	<i>10</i>	198,467	188,951
Right-of-use assets		16,160	32,687
Prepayments for acquisition of properties	<i>11</i>	14,006	15,634
Goodwill		384,252	379,984
Other intangible assets		68,760	75,600
Investments in joint ventures		4,112	4,230
Investments in associates		5,308	4,789
Long-term deposits		5,648	4,657
Deferred tax assets		60,496	50,395
Total non-current assets		872,552	869,159
CURRENT ASSETS			
Inventories		94,205	11,820
Trade and bills receivables	<i>12</i>	605,620	374,202
Prepayments, deposits and other receivables	<i>13</i>	504,846	303,570
Financial assets at fair value through profit or loss		41,261	15,008
Cash and cash equivalents		351,354	495,773
Total current assets		1,597,286	1,200,373
CURRENT LIABILITIES			
Trade payables	<i>14</i>	103,883	72,357
Other payables and accruals	<i>15</i>	1,116,618	836,234
Interest-bearing bank and other borrowings		91,306	53,952
Lease liabilities		21,552	30,033
Tax payable		140,790	108,587
Total current liabilities		1,474,149	1,101,163
NET CURRENT ASSETS		123,137	99,210
TOTAL ASSETS LESS CURRENT LIABILITIES		995,689	968,369

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

30 June 2021

	30 June 2021	31 December 2020
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	–	25,319
Lease liabilities	2,804	8,193
Deferred tax liabilities	26,713	24,842
Other long-term payables	–	18,589
	<hr/>	<hr/>
Total non-current liabilities	29,517	76,943
	<hr/>	<hr/>
NET ASSETS	966,172	891,426
	<hr/> <hr/>	<hr/> <hr/>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		
Share capital	7,082	7,082
Reserves	856,420	807,244
	<hr/>	<hr/>
	863,502	814,326
Non-controlling interests	102,670	77,100
	<hr/>	<hr/>
TOTAL EQUITY	966,172	891,426
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

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, provision of 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 2021 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 2020.

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 2020, 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The application of the Amendments to Reference to the Conceptual Framework in HKFRS 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.

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 2021 (unaudited)						
Segment revenue						
External customers	659,116	16,645	83,094	105,994	66,855	931,704
Intersegment sales	4,590	–	47,539	926	74,069	127,124
	<u>663,706</u>	<u>16,645</u>	<u>130,633</u>	<u>106,920</u>	<u>140,924</u>	<u>1,058,828</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales	<u>(4,590)</u>	<u>–</u>	<u>(47,539)</u>	<u>(926)</u>	<u>(74,069)</u>	<u>(127,124)</u>
Total revenue	<u>659,116</u>	<u>16,645</u>	<u>83,094</u>	<u>105,994</u>	<u>66,855</u>	<u>931,704</u>
Segment results	63,365	4,832	21,465	39,385	11,530	140,577
<i>Reconciliation:</i>						
Bank interest income						2,199
Other interest income of financial assets at fair value through profit or loss						354
Change in fair value of investment properties						4,753
Change in fair value of financial assets/ liabilities at fair value through profit or loss						(4,537)
Net foreign exchange gains						1,156
Corporate expenses						(27,718)
Share of profits of joint ventures						2,432
Share of profits of associates						519
Finance costs (other than interest on lease liabilities)						(5,060)
Profit before tax						<u>114,675</u>

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 2020 (unaudited)						
Segment revenue						
External customers	592,897	24,199	17,883	154,631	49,468	839,078
Intersegment sales	<u>2,503</u>	<u>–</u>	<u>45,734</u>	<u>–</u>	<u>46,865</u>	<u>95,102</u>
	595,400	24,199	63,617	154,631	96,333	934,180
<i>Reconciliation:</i>						
Elimination of intersegment sales	<u>(2,503)</u>	<u>–</u>	<u>(45,734)</u>	<u>–</u>	<u>(46,865)</u>	<u>(95,102)</u>
Total revenue	<u>592,897</u>	<u>24,199</u>	<u>17,883</u>	<u>154,631</u>	<u>49,468</u>	<u>839,078</u>
Segment results	84,524	9,159	10,547	20,000	6,690	130,920
<i>Reconciliation:</i>						
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)						<u>(8,847)</u>
Profit before tax						<u>108,119</u>

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 2021 and 31 December 2020, 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 2021 (unaudited)	2,018,488	104,796	122,635	151,198	196,332	2,593,449
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(1,005,618)
Corporate and other unallocated assets						882,007
Total assets						<u>2,469,838</u>
Segment liabilities						
30 June 2021 (unaudited)	1,253,656	65,243	73,001	79,152	130,005	1,601,057
<i>Reconciliation:</i>						
Elimination of intersegment payables						(1,005,618)
Corporate and other unallocated liabilities						908,227
Total liabilities						<u>1,503,666</u>
Segment assets						
31 December 2020 (audited)	1,726,074	46,903	131,188	218,488	248,486	2,371,139
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(1,073,218)
Corporate and other unallocated assets						771,611
Total assets						<u>2,069,532</u>
Segment liabilities						
31 December 2020 (audited)	911,638	24,281	60,767	95,199	118,751	1,210,636
<i>Reconciliation:</i>						
Elimination of intersegment payables						(1,073,218)
Corporate and other unallocated liabilities						1,040,688
Total liabilities						<u>1,178,106</u>

5. REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	<u>931,704</u>	<u>839,078</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2021 (unaudited)

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	659,116	16,645	83,094	105,994	53,073	917,922
Sales of products	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,782</u>	<u>13,782</u>
Total revenue from contracts with customers	<u>659,116</u>	<u>16,645</u>	<u>83,094</u>	<u>105,994</u>	<u>66,855</u>	<u>931,704</u>
Geographical market						
Mainland China	<u>659,116</u>	<u>16,645</u>	<u>83,094</u>	<u>105,994</u>	<u>66,855</u>	<u>931,704</u>
Timing of revenue recognition						
Revenue recognised over time	651,599	16,645	83,094	-	53,073	804,411
Revenue recognised at a point in time	<u>7,517</u>	<u>-</u>	<u>-</u>	<u>105,994</u>	<u>13,782</u>	<u>127,293</u>
Total revenue from contracts with customers	<u>659,116</u>	<u>16,645</u>	<u>83,094</u>	<u>105,994</u>	<u>66,855</u>	<u>931,704</u>

5. REVENUE (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the six months ended 30 June 2020 (unaudited)

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	<u>592,897</u>	<u>24,199</u>	<u>17,883</u>	<u>154,631</u>	<u>49,468</u>	<u>839,078</u>
Geographical market						
Mainland China	<u>592,897</u>	<u>24,199</u>	<u>17,883</u>	<u>154,631</u>	<u>49,468</u>	<u>839,078</u>
Timing of revenue recognition						
Revenue recognised over time	585,031	24,199	17,883	–	40,295	667,408
Revenue recognised at a point in time	<u>7,866</u>	<u>–</u>	<u>–</u>	<u>154,631</u>	<u>9,173</u>	<u>171,670</u>
Total revenue from contracts with customers	<u>592,897</u>	<u>24,199</u>	<u>17,883</u>	<u>154,631</u>	<u>49,468</u>	<u>839,078</u>

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 2021 (unaudited)

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	659,116	16,645	83,094	105,994	66,855	931,704
Intersegment sales	<u>4,590</u>	<u>–</u>	<u>47,539</u>	<u>926</u>	<u>74,069</u>	<u>127,124</u>
Intersegment adjustments and eliminations	<u>(4,590)</u>	<u>–</u>	<u>(47,539)</u>	<u>(926)</u>	<u>(74,069)</u>	<u>(127,124)</u>
Total revenue from contracts with customers	<u>659,116</u>	<u>16,645</u>	<u>83,094</u>	<u>105,994</u>	<u>66,855</u>	<u>931,704</u>

5. REVENUE (CONTINUED)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the six months ended 30 June 2020 (unaudited)

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	<u>2,503</u>	<u>–</u>	<u>45,734</u>	<u>–</u>	<u>46,865</u>	<u>95,102</u>
Intersegment adjustments and eliminations	<u>(2,503)</u>	<u>–</u>	<u>(45,734)</u>	<u>–</u>	<u>(46,865)</u>	<u>(95,102)</u>
Total revenue from contracts with customers	<u>592,897</u>	<u>24,199</u>	<u>17,883</u>	<u>154,631</u>	<u>49,468</u>	<u>839,078</u>

6. PROFIT BEFORE TAX

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

		For the six months ended 30 June	
		2021	2020
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cost of services provided		678,043	602,874
Cost of goods sold		10,719	2,466
Employee benefit expense (excluding compensation to key management personnel)			
Salaries and other benefits		348,280	282,196
Retirement benefit scheme contributions		18,644	3,803
		<u>366,924</u>	<u>285,999</u>
Depreciation of property and equipment		13,871	9,198
Depreciation of right-of-use assets		9,910	11,415
Amortisation of other intangible assets		7,087	6,641
Impairment of trade and bills receivables		7,300	31,312
Impairment of prepayments, deposits and other receivables	13	11,960	6,413
Fair value (gains)/losses on investment properties	10	(4,753)	511
Gross rental income		(2,173)	(1,988)
Net foreign exchange gains		(1,156)	(1,370)
Change in fair value of financial assets/liabilities at fair value through profit or loss		4,537	(2,643)
Interest income		(2,199)	(2,297)
Other interest income of financial assets at fair value through profit or loss		(354)	(1,377)
Government grants		–	(13,810)
Gain on disposal of a subsidiary		–	(1,520)
Loss on disposal of items of property and equipment		30	41

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 2021 (six months ended 30 June 2020: 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 BVI 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 BVI.

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 2021 and 2020.

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	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Mainland China:		
Charge for the period	40,513	43,915
Deferred tax	(8,669)	(10,907)
Total tax charge for the period	31,844	33,008

8. DIVIDENDS

During the six months ended 30 June 2021, a dividend of HKD3.00 cents per share in respect of the year ended 31 December 2020 was declared by the directors of the Company and approved in the Company's annual general meeting on 31 May 2021. Dividends amounting to RMB21,332,000 were paid during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB20,534,000).

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 2021 and 2020, and the weighted average number of ordinary shares in issue during the period.

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

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	68,978	62,635
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	854,550,000	819,879,000

There were no outstanding potential diluted shares for the six month ended 30 June 2021 and 2020.

10. INVESTMENT PROPERTIES

RMB'000

At 1 January 2021 (audited)	188,951
Transfer from property and equipment	4,763
Net gains from fair value adjustments (<i>note 6</i>)	4,753
	<hr/>
At 30 June 2021 (unaudited)	198,467
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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 2021. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The Group's management had discussions with the valuer on the valuation assumptions and valuation results on a regular basis when the valuation is performed.

The Group's investment properties with a carrying value of RMB100,866,000 (31 December 2020: RMB54,187,000) were pledged to secure general banking facilities granted to the Group as at 30 June 2021.

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 2021 using				
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Recurring fair value measurement for:				
Investment properties	<hr/> — <hr/>	<hr/> — <hr/>	<hr/> 198,467 <hr/>	<hr/> 198,467 <hr/>
Fair value measurement as at 31 December 2020 using				
	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Recurring fair value measurement for:				
Investment properties	<hr/> — <hr/>	<hr/> — <hr/>	<hr/> 188,951 <hr/>	<hr/> 188,951 <hr/>

10. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy (Continued)

During the six months ended 30 June 2021 and the year ended 31 December 2020, 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	2021	Range 2020
Residential properties	Direct comparison method	Market unit price per square metre (RMB/sq.m)	7 to 29	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 2021, the Group had prepayments of RMB14,006,000 (31 December 2020: RMB15,634,000) 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 2021 and the related prepayments of RMB1,628,000 were transferred to property and equipment.

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 30 days	157,515	37,180
Over 30 days and within 90 days	90,801	48,797
Over 90 days and within 180 days	155,877	51,373
Over 180 days and within 365 days	94,865	106,079
Over one year	106,562	130,773
	<u>605,620</u>	<u>374,202</u>

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Payment on behalf of customers to utility suppliers	79,109	76,439
Prepayments	73,170	65,315
Deposits paid to utility suppliers	58,275	53,366
Taxes recoverable	1,332	879
Other receivables	334,781	138,307
	<u>546,667</u>	<u>334,306</u>
Less: Impairment allowance	(41,821)	(30,736)
	<u>504,846</u>	<u>303,570</u>
Total	<u>504,846</u>	<u>303,570</u>

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 2021 ranged from 3% to 28% (31 December 2020: 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Less than one year	99,128	68,213
Over one year	4,755	4,144
	<u>103,883</u>	<u>72,357</u>

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

15. OTHER PAYABLES AND ACCRUALS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contract liabilities	254,769	123,359
Receipts on behalf of community residents for utilities	371,742	208,079
Accruals and other payables	211,383	218,000
Deposits received	65,342	65,429
Receipts in advance	15,401	6,167
Amounts due to non-controlling equity holders of subsidiaries	173,536	164,677
Other tax payables	24,445	50,523
	<u>1,116,618</u>	<u>836,234</u>

As at 30 June 2021 and 31 December 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.

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 the PRC. In 2021, the Group was rated 2021 中國物業服務百強企業 (2021 China Top 100 Property Management Companies in China*), and 2021 中國物業服務行業市場化營運領先企業 (2021 China Property Management Industry Marketing Operation Leading Company*) by 中國指數研究院 (China Index Academy*). The Group also received Sustainability Impact Corporate Award from Social Impact Investment & Procurement Foundation in August 2021. As at 30 June 2021, the Group had a total contracted gross floor area (“**GFA**”) of approximately 73.5 million square meters (“**sq.m.**”), where it was contracted to manage 608 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 services to mainly residential properties, commercial and government buildings. Services provided by the Group include standard property management services and ancillary services such as cleaning, gardening, security guard, property facilities repair and maintenance and butler services. Through its butler services, the Group provides personalised 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 establishing 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 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 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 results of the 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 services on the leasing and sales assistance of residential properties and retail units.

Other businesses

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

Business Review

Property management business

As at 30 June 2021, the Group had expanded its presence to 45 cities in China where it was contracted to manage a total of 608 residential properties and non-residential premises such as commercial or government buildings with an aggregate contracted GFA of approximately 73.5 million sq.m. Revenue from property management business increased by approximately RMB66.2 million, or 11.2% over the same period in 2020 primarily due to growth in the group's existing property management business as a result of increase in the delivered contracted GFA and the number of properties under management from approximately 65.1 million sq.m. and 531 properties respectively for the six months ended 30 June 2020 to approximately 68.7 million sq.m. and 553 properties respectively for the six months ended 30 June 2021.

* 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 maximise 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 2021.

Eastern and Central China	Southern China	Northern China	Western China
1. Changde (1)	27. Cenxi (11)	41. Baotou (6)	45. Lhasa (1)
2. Chongqing (3)	28. Chongzuo (2)	42. Beijing (1)	
3. Chuzhou (3)	29. Foshan (18)	43. Zhangjiakou (5)	
4. Hangzhou (67)	30. Guangzhou (10)	44. Tianjin (1)	
5. Heze (3)	31. Guigang (1)		
6. Huai'an (1)	32. Guilin (5)		
7. Huanggang (1)	33. Jiangmen (1)		
8. Huzhou (17)	34. Nanning (17)		
9. Jiaxing (1)	35. Qingyuan (5)		
10. Kaifeng (2)	36. Sanya (7)		
11. Nanchang (1)	37. Wenchang (1)		
12. Nantong (14)	38. Wuzhou (7)		
13. Nanyang (1)	39. Zhaoqing (4)		
14. Ningbo (288)	40. Zhongshan (1)		
15. Quzhou (4)			
16. Shanghai (19)			
17. Shaoxing (7)			
18. Suzhou (43)			
19. Táizhou (2)			
20. Wenzhou (8)			
21. Wuxi (8)			
22. Xuancheng (3)			
23. Yan'an (2)			
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 2021	
	Sq. m. in thousands	No.
<i>Residential properties</i>		
Eastern and Central China ⁽¹⁾	44,967	343
Southern China ⁽²⁾	15,476	73
Northern China ⁽³⁾	2,424	8
	<hr/>	<hr/>
Subtotal	62,867	424
<i>Non-residential properties</i>	5,809	129
	<hr/>	<hr/>
Total	68,676	553
	<hr/>	<hr/>

As at 30 June 2021, the Group's contracted GFA of undelivered properties amounted to approximately 4.8 million sq.m.

Notes:

- (1) Including Changde, Chongqing, Chuzhou, Hangzhou, Huai'an, Huanggang, Huzhou, Jiaxing, Kaifeng, Nanchang, Nantong, Ningbo, Quzhou, Shanghai, Shaoxing, Suzhou, Taizhou, Wenzhou, Wuxi, Xuancheng, Yueyang and Zhenjiang.
- (2) Including Cenxi, Foshan, Guangzhou, Guilin, Jiangmen, Nanning, Qingyuan, Sanya, Wenchang, Wuzhou and Zhaoqing.
- (3) Including Baotou 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 2021 and 30 June 2020, the Group provided sales assistance business to 42 and 79 properties, respectively.

Cleaning and greening business

The Group provides property developers and property owners with the environmental cleaning and landscaping services in China.

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 value-added property management 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 commercial buildings and provides catering services as well;
- (5) The Group provides shuttle bus services throughout certain property regions for the convenience of property users; and
- (6) The Group provides security guard services to the owners and customers of the properties under management.

Prospects and Future Plans

Even though the next half six months of 2021 will still be full of challenges and uncertainties, the Group will still 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.

In December 2020, the Group acquired 100% equity interest in 廣州諾登電梯服務有限公司 (Guangzhou Nuodeng Elevator Services Company Limited*) (**“Guangzhou Nuodeng”**), which was settled by the Group's 49% equity interest in 寧波永都電梯工程有限公司 (Ningbo Yongdu Elevator Engineering Company Limited*) (**“Ningbo Yongdu”**). Upon completion in January 2021, Guangzhou Nuodeng became a wholly-owned subsidiary of the Company. Guangzhou Nuodeng is principally engaged in installation, repair and maintenance of elevator in the PRC.

In July 2021, 佛山派瑞爾清潔服務有限公司 (Foshan Pairuier Cleaning Services Company Limited*) (**“Foshan Pairuier”**), an indirect wholly-owned subsidiary of the Company, entered into an equity cooperation agreement (the **“Equity Cooperation Agreement”**) with Greentown Property Services Group Company Limited (**“Greentown Property”**), a wholly-owned subsidiary of Greentown Service Group Co., Ltd. which holds approximately 18% of the issued share capital of the Company as at the date of this announcement, and 杭州塞安企業管理諮詢有限公司 (Hangzhou Saian Property Management Consultancy Company Limited*) (**“Hangzhou Saian”**), an independent third party which is principally engaged in the provision of enterprise management consultancy, pursuant to which the parties agreed to establish a joint venture company (the **“Joint Venture Company”**) in the PRC. The Joint Venture Company will principally engage in the provision of property cleaning services as well as other environmental related services in the PRC. Pursuant to the Equity Cooperation Agreement, the registered capital of the Joint Venture Company will be RMB10,000,000, of which RMB4,900,000, RMB3,100,000 and RMB2,000,000 will be contributed by Foshan Pairuier, Greentown Property and Hangzhou Saian respectively. Upon establishment of the Joint Venture Company, it will be owned by Foshan Pairuier, Greentown Property and Hangzhou Saian as to 49%, 31% and 20% respectively.

Pursuant to the Equity Cooperation Agreement, the parties agreed to establish the Joint Venture Company in Hangzhou City, the PRC. The proposed name of the Joint Venture Company is 浙江雲和環境科技服務有限公司 (Zhejiang Yunhe Environment Technology Service Company Limited*) or such other name subject to the final approval and registration by the relevant regulatory authority in the PRC.

* for identification purpose only

The parties shall cooperate and leverage on their respective industry experience and resources to manage and develop the business of the Joint Venture Company, and aim to develop the Joint Venture Company into an expert in the cleaning service industry within three to five years of operation.

In particular, Greentown Property shall give priority to introducing the cleaning business opportunities relating to its own property management projects to the Joint Venture Company subject to applicable laws and the same market conditions, whereas Foshan Pairuier shall authorise the Joint Venture Company to use its brand names in providing services, and be responsible for the day-to-day operation and management of the Joint Venture Company, including but not limited to the provision of employee training and service quality control.

Greentown Property is a reputable property management company, and has a sizeable demand for cleaning services as derived from its property management business. Hangzhou Saisan is an enterprise management consultancy company and provides one-stop management consultancy solutions for its clients.

As disclosed in the announcement of the Company dated 17 April 2019 in relation to the acquisition of 51% equity interests in 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**”) and 廣西輝煌置業諮詢服務有限公司 (Guangxi Huihuang Property Advisory Services Company Limited*) (“**Huihuang Property**”) (collectively named as the “**Target Companies**”) by 廣東中奧物業管理有限公司 (Guangdong Zhong Ao Property Management Company Limited*), a wholly-owned subsidiary of the Company (the “**Purchaser**”), Mr. Liang Xiwei, a merchant and one of the vendors (the “**First Vendor**”) who transferred the 51% of the registered capital (the “**Sale Capital**”) irrevocably represented and warranted to and undertook with the Purchaser that:

- (i) the audited combined net profit after tax of the Target Companies should not be less than RMB20,000,000 for the financial year ending 31 December 2019;
- (ii) the audited combined net profit after tax of the Target Companies should not be less than RMB30,000,000 for the financial year ending 31 December 2020; and
- (iii) the audited combined net profit after tax of the Target Companies should not be less than RMB50,000,000 for the financial year ending 31 December 2021.

The First Vendor also agreed to grant the option (the “**Put Option**”) to the Purchaser and exercisable by the Purchaser to request the First Vendor to purchase all of the Sale Capital held by the Purchaser at the aggregate amount of all the consideration paid by the Purchaser (including the consideration paid by the Purchaser in relation to the satisfaction of all or part of the above profit guarantee made by the First Vendor in favour of the Purchaser (the “**Profit Guarantee**”), if any) for the acquisition of the Sale Capital at the time of exercise of the Put Option plus an interest at the interest rate of 10% per annum (the “**Option Price**”) to the Purchaser pursuant to which the Purchaser should have the right to request the First Vendor to purchase all of the Sale Capital held by the Purchaser at the Option Price.

* for identification purpose only

Upon the exercise of the Put Option, (i) the First Vendor agreed to refund to the Purchaser all capital injected into the Target Companies from the date of completion of acquisition of the Sale Capital by the Purchaser up to the date of exercise of the Put Option plus an interest at the interest rate of 10% per annum; and (ii) any remaining balance of the consideration for the acquisition of the Sale Capital by the Purchaser should no longer be payable by the Purchaser to the First Vendor.

As disclosed in the announcement of the Company dated 22 July 2021 in relation to the Profit Guarantee, the audit of the combined financial statements of the Target Companies for the year ended 31 December 2020 has been completed and the audited combined net profit after tax of the Target Companies is in the amount of approximately RMB22,718,000 for the financial year ended 31 December 2020, which is less than the amount guaranteed by the First Vendor.

On 18 August 2021, the Purchaser exercised the Put Option and served a written notice (the “**Option Notice**”) to the First Vendor to request the First Vendor to purchase all of the Sale Capital, representing 51% of the registered capital in the Target Companies, held by the Purchaser at pre-agreed Option Price in the amount of approximately RMB36.9 million within 15 business days after 18 August 2021 (the date of the Option Notice) (the “**Disposal**”).

Completion of the Disposal (the “**Completion**”) will take place within 15 business days after the date of the Option Notice.

Upon Completion, each of the Target Companies will be wholly and beneficially owned by the First Vendor and will cease to be a subsidiary of the Company and the results of the Target Companies will no longer be consolidated into the consolidated financial statements of the Company.

It is expected that (i) investment in Guangzhou Nuodeng will capture more installation, repair and maintenance of elevators projects in the PRC; (ii) strategic formation of a new joint venture can capture more cleaning business opportunities and (iii) the Disposal and the exercise of the Put Option can provide a good opportunity for the Group to reallocate its resources, to strengthen the cash position of the Group and to fully recoup the consideration previously paid for the acquisition of the Sale Capital together with the interest accrual at the interest rate of 10% per annum.

FINANCIAL PERFORMANCE REVIEW

Revenue

During the six months ended 30 June 2021, the Group recorded revenue of approximately RMB931.7 million, representing a year-on-year increase of 11.0% over the previous period ended 30 June 2020.

Increase in the Group's revenue was primarily attributable to the growth in property management business revenue from approximately RMB592.9 million for the six months ended 30 June 2020 to approximately RMB659.1 million for the six months ended 30 June 2021 and represented 11.2% increase over the corresponding period last year. The Group's revenue segments also brought forth revenue generated from cleaning and greening business of approximately RMB83.1 million for the six months ended 30 June 2021 as compared with approximately RMB17.9 million for the six months ended 30 June 2020, the revenue generated from real estate agency business of approximately RMB106.0 million for the six months ended 30 June 2021 as compared with approximately RMB154.6 million for the six months ended 30 June 2020 and the revenue generated from other businesses of approximately RMB66.9 million for the six months ended 30 June 2021 as compared with approximately RMB49.5 million for the six months ended 30 June 2020.

Breakdown of Revenue by business line and services

	For the six months ended 30 June			
	2021	2020	Change	
	RMB'000	RMB'000	RMB'000	%
Property management business				
— Property management business	659,116	592,897	66,219	11.2
— Sales assistance business	16,645	24,199	(7,554)	(31.2)
Cleaning and greening business	83,094	17,883	65,211	364.7
Real estate agency business	105,994	154,631	(48,637)	(31.5)
Other businesses	66,855	49,468	17,387	35.1
	<u>931,704</u>	<u>839,078</u>	<u>92,626</u>	<u>11.0</u>

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 RMB66.2 million, or 11.2% over the same period in 2020 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 from approximately 65.1 million sq.m. and 531 properties respectively for the six months ended 30 June 2020 to approximately 68.7 million sq.m. and 553 properties respectively for the six months ended 30 June 2021.

Sales assistance business

Revenue from the sales assistance business for the six months ended 30 June 2021 was approximately RMB16.6 million, comparing to approximately RMB24.2 million for the six months ended 30 June 2020, represented a decrease of approximately RMB7.6 million, or 31.2%. The decrease in revenue from the sales assistance business was due to the decrease in the number of projects, where the Group provided sales assistance business on 42 projects for the six months ended 30 June 2021 as compared to 79 projects for the six months ended 30 June 2020.

Cleaning and greening business

Revenue from cleaning and greening business of approximately RMB83.1 million for the six months ended 30 June 2021, comparing to approximately RMB17.9 million for the six months ended 30 June 2020, represented an increase of approximately RMB65.2 million or 364.2% mainly due to acquisition of certain cleaning and greening services companies during the last six months period.

Real estate agency business

Decrease of approximately RMB48.6 million for the real estate agency business from approximately RMB154.6 million for the six months ended 30 June 2020 to approximately RMB106.0 million for the six months ended 30 June 2021 was mainly due to impact of tight mortgage loan policies adopted by the PRC financial institutions.

Other businesses

Revenue from other businesses increased from approximately RMB49.5 million for the six months ended 30 June 2020 to approximately RMB66.9 million for the six months ended 30 June 2021. The increase of approximately RMB17.4 million or 35.1% over the period was mainly due to addition of revenue generated from variety of services provided by newly acquired subsidiary, Jinan Express Services Co., Ltd. of approximately RMB25.0 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 property and equipment 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 13.8% from approximately RMB605.3 million for the six months ended 30 June 2020 to approximately RMB688.8 million for the six months ended 30 June 2021. 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			
	2021 (Unaudited)		2020 (Unaudited)	
	<i>Gross profit</i>	<i>Gross profit margin % of</i>	<i>Gross profit</i>	<i>Gross profit margin % of</i>
	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>
Property management business				
— Property management business and sales assistance business	170,562	25.2	176,372	28.6
Cleaning and greening business	21,465	25.8	2,129	11.9
Real estate agency services business	39,385	37.2	42,645	27.6
Other businesses	11,530	17.2	12,592	25.5
Total	242,942	26.1	233,738	27.9

The Group's gross profit for the six months ended 30 June 2021 was approximately RMB242.9 million, comparing to approximately RMB233.7 million for the six months ended 30 June 2020, represented an increase of approximately RMB9.2 million, or 3.9%. The Group's overall gross profit margin decreased from 27.9% for the six months ended 30 June 2020 to 26.1% for the six months ended 30 June 2021. 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 2021 was approximately RMB20.0 million, which decreased by approximately RMB6.9 million as compared to approximately RMB26.9 million for the six months ended 30 June 2020. The decrease was mainly due to net effect of decrease 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 made in the six months ended 30 June 2020 but nil in the six months ended 30 June 2021.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six months ended 30 June 2021 were approximately RMB7.6 million, comparing to approximately RMB6.4 million for the six months ended 30 June 2020, represented an increase of approximately RMB1.2 million, or 18.8%. The increase was primarily due to increase in other office and selling expenses of approximately RMB1.0 million during the period.

Administrative Expenses

The Group's administrative expenses for the six months ended 30 June 2021 was approximately RMB114.8 million, comparing to approximately RMB101.2 million for the six months ended 30 June 2020, represented an increase of approximately RMB13.6 million, or 13.4%. The increase was primarily due to the net effect of increase in employees' salaries of approximately RMB1.2 million, increase in depreciation charge of approximately RMB5.0 million, increase in rental expenses of approximately RMB1.9 million, increase in utility expenses of approximately RMB1.4 million and other administration expenses of approximately RMB3.2 million.

Impairment Losses on Financial and Contract Assets, Net

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. Based on the impairment analysis, impairment losses on financial and contract assets of approximately RMB19.3 million were recognised for the six months ended 30 June 2021 as compared with approximately RMB37.7 million for the six months ended 30 June 2020.

Finance Costs

The Group's net finance expenses amounted to approximately RMB5.1 million for the six months ended 30 June 2021 (six months ended 30 June 2020: net finance expenses of approximately RMB8.8 million). The decrease was primarily due to lower interest arisen from lower average interest-bearing bank and other borrowings balance.

Income Tax Expense

The Group's income tax expense for the six months ended 30 June 2021 was approximately RMB31.8 million, comparing to approximately RMB33.0 million for the six months ended 30 June 2020, the Group's effective tax rate decreased from 30.5% for the six months ended 30 June 2020 to 27.8% for the six months ended 30 June 2021, which was primarily due to higher tax deductible expenses incurred for the period.

Right-of-use Assets

Right-of-use assets of approximately RMB16.2 million mainly represented the interests in leasehold land and buildings as at 30 June 2021 after adoption of HKFRS 16 (as at 31 December 2020: approximately RMB32.7 million). The decrease of approximately RMB16.5 million mainly represented amortisation of the right-of-use assets during the period.

Goodwill

As at 30 June 2021, the Group recorded goodwill of approximately RMB384.3 million, representing an increase of 1.1% as compared with that of approximately RMB380.0 million as at 31 December 2020. 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 2021 reached the management's expectation in the first half of 2021, 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 2021, total trade and bills receivables of the Group amounted to approximately RMB605.6 million, representing an increase of approximately RMB231.4 million as compared with approximately RMB374.2 million as at 31 December 2020.

The Group's trade and bills receivables turnover days for the six months ended 30 June 2021 was around 117 days (year ended 31 December 2020: around 78 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 2021 are higher than that at the previous year end.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables increased from approximately RMB303.6 million as at 31 December 2020 to approximately RMB504.8 million as at 30 June 2021. The increase of approximately RMB201.2 million or 66.3% was mainly due to increase in other receivables mainly for higher bidding deposits for forthcoming contracts of approximately RMB199.1 million.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss of approximately RMB41.3 million mainly represented investment in those financial assets which were fair value of approximately RMB30.0 million and contingent consideration resulting from business acquisitions in the PRC as at 30 June 2021 (as at 31 December 2020: approximately RMB15.0 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 RMB836.2 million as at 31 December 2020 to approximately RMB1,116.6 million as at 30 June 2021, which were primarily attributable to the net effect of (i) the increase of approximately RMB163.7 million in receipts on behalf of community residents for utilities; and (ii) the increase of approximately RMB131.4 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 2021, net working capital (calculated as current assets less current liabilities) was approximately RMB123.1 million which represented an increase of approximately RMB23.9 million from approximately RMB99.2 million as at 31 December 2020. The current ratios (calculated as current assets/current liabilities) were both 1.1 times as at 30 June 2021 and 31 December 2020.

As at 30 June 2021, all the Group's borrowings were denominated in RMB except for unsecured borrowings amounting to RMB19,977,000 (31 December 2020: RMB20,071,000) 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 RMB10,400,000 (31 December 2020: RMB7,750,000) at nil consideration as at 30 June 2021. The bank borrowing balances of the Group bore interest at floating rates, except for bank and other borrowings of RMB71,330,000 at 30 June 2021 (31 December 2020: RMB59,200,000) 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 2021, 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 2021, the Group was in a strong financial position with a net cash position amounting to approximately RMB86.5 million (31 December 2020: approximately RMB251.8 million). Accordingly, no gearing ratio is presented.

PLEDGE OF ASSETS

At 30 June 2021, investment properties of approximately RMB100.9 million (31 December 2020: approximately RMB54.2 million) were pledged to secure certain banking facilities granted to the Group.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2021.

Employees and Remuneration Policies

As at 30 June 2021, excluding the employees under commission basis and employees under the subcontracting contracts, the Group had approximately 11,634 (31 December 2020: 9,735) 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 2021 (six months ended 30 June 2020: nil). The Board will consider to declare final dividend if the annual results of the Group for the year ending 31 December 2021 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 2021, 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 (“**Mr. Liu**”) 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 considers 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 July 2021, Foshan Pairuier entered into the Equity Cooperation Agreement with Greentown Property and Hangzhou Saian, pursuant to which the parties agreed to establish the Joint Venture Company in the PRC. The Joint Venture Company will principally engage in the provision of property cleaning services as well as other environmental related services in the PRC. Pursuant to the Equity Cooperation Agreement, the registered capital of the Joint Venture Company will be RMB10,000,000, of which RMB4,900,000, RMB3,100,000 and RMB2,000,000 will be contributed by Foshan Pairuier, Greentown Property and Hangzhou Saian respectively. Upon establishment of the Joint Venture Company, it will be owned by Foshan Pairuier, Greentown Property and Hangzhou Saian as to 49%, 31% and 20% respectively.

On 18 August 2021, Guangdong Zhong Ao Property Management Company Limited ("**Guangdong Zhong Ao**"), a wholly-owned subsidiary of the Company, has served the Option Notice to Mr. Liang Xiwei stating its intention to exercise the Put Option granted by Mr. Liang Xiwei to Guangdong Zhong Ao to purchase 51% of the registered capital in Huihuang Real Estate and Huihuang Property, collectively, at the pre-agreed option price.

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 2021.

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 2021 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 2021 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 2021. 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 2021, neither the Company, nor any of its subsidiaries repurchased, redeemed or sold any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.gdzawy.com). The interim report of the Company for the six months ended 30 June 2021 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, 31 August 2021

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.