# 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)**

# INSIDE INFORMATION
# BUSINESS UPDATE FOR THE THREE MONTHS ENDED 31 MARCH 2016

This announcement is made by Zhong Ao Home Group Limited (the "**Company**" and, together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Inside Information Provision (as defined in Listing Rules) of Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

The Company would like to update its shareholders and investors on certain key financial and operational information of the Group for the three months ended 31 March 2016 together with the comparative figures for the corresponding period in 2015 as follows:

**FINANCIAL HIGHLIGHTS**

| | For the three months ended 31 March | | |
|---|---|---|---|
| | **2016** | 2015 | |
| | **(unaudited)** | (unaudited) | |
| | ***RMB'000*** | *RMB'000* | *Change* |
| Revenue | **129,487** | 93,658 | 38.3% |
| Gross profit | **44,130** | 33,719 | 30.9% |
| Profit attributable to owners of the Company | **953** | 14,157 | (93.3)% |
| Adjusted net profit for the period [(1)] | **20,094** | 15,200 | 32.2% |
| Gross profit margin (%) | **34.1%** | 36.0% | (1.9) pp |
| Net profit margin (%) | **0.8%** | 15.0% | (14.2) pp |
| Adjusted net profit margin (%) [(1)] | **15.5%** | 16.2% | (0.7) pp |

*Note:*

(1) Adjusted net profit for the period is derived by adding listing expenses of nil (2015: RMB1.2 million), share-based payment expenses of RMB6.8 million (2015: Nil) and excluding the net loss of RMB12.2 million (2015: Nil) incurred for the O2O platform for the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

*Property Management Services*

As of 31 March 2016, the Group had expanded its presence to 28 cities in China where it was contracted to manage 178 residential properties or non-residential properties with an aggregate contracted GFA of 34.8 million square meters, representing an increase of 3.0% as compared to aggregate contracted GFA of 33.8 million square meters as of 31 December 2015, including revenue-bearing GFA of 16.8 million square meters, representing an increase of 8.2% as compared to revenue-bearing GFA of 15.5 million square meters as of 31 December 2015.

Currently, the property management market is quite fragmented, indicating a trend of industry consolidation. Through acquisitions, the Group will be able to strengthen its market position, expand geographical coverage and get access to new capacity. In February 2016, the Group successfully acquired 70% of equity interest in Eastern Harbour Engineering Management Limited ("**Eastern Harbor**") which manages 11 properties in Shanghai, hence such successful acquisition of Eastern Harbor will enable the Group to expand the service market of Shanghai in the future.

The Group strategically select markets to enter into, focusing on those with more developed economies and comparatively high per capita GDP. Once the Group has established presence in a new city, it seek to expand our business within the same city or neighboring cities with a view to maximizing our economies of scale. The Group primarily provides a variety of property management services to residential properties and occasionally to non-residential properties.

Total contracted GFA equals the sum of revenue-bearing GFA, undelivered GFA and common area GFA (which includes pathways, gardens, parking lots, swimming pools, advertisement bullet in boards and club houses).

The table below sets forth the total contracted GFA and the number of residential properties and non-residential properties in different regions in the PRC, as well as revenue-bearing GFA as of the date indicated.

| | **As at 31 March 2016** | | As at 31 December 2015 | |
|---|---|---|---|---|
| **Total Contracted GFA** | ***Sq. m. in thousands*** | ***No.*** | *Sq. m. in thousands* | *No.* |
| *Residential properties* | | | | |
| Eastern and Central China(1) | **18,599** | **107** | 17,628 | 97 |
| Southern China(2) | **13,737** | **55** | 13,737 | 55 |
| Northern China(3) | **1,354** | **6** | 1,354 | 6 |
| Subtotal | **33,690** | **168** | 32,719 | 158 |
| Non-residential properties | **1,136** | **10** | 1,096 | 9 |
| **Total** | **34,826** | **178** | 33,815 | 167 |

| | As at 31 March 2016 *Sq. m. in thousands* | As at 31 December 2015 *Sq. m. in thousands* |
|---|---|---|
| **Revenue-bearing GFA**[4] | | |
| *Residential properties* | | |
| Eastern and Central China[1] | **9,884** | 8,657 |
| Southern China[2] | **6,127** | 6,056 |
| Northern China[3] | **664** | 718 |
| Subtotal | **16,675** | 15,431 |
| *Non-residential properties* | **146** | 116 |
| **Total** | **16,821** | 15,547 |

*Notes:*

(1) Including Chongqing, Hangzhou, Huzhou, Jiaxing, Nanchang, Nantong, Ningbo, Quzhou, Shanghai, Shaoxing, Suzhou, Wuxi, Xuancheng, Zhenjiang.

(2) Including Foshan, Guangzhou, Guilin, Haikou, Jiangmen, Nanning, Qingyuan, Sanya, Zhaoqing, Zhongshan, Zhuhai.

(3) Including Baotou, Dalian, Eérduosi.

(4) Revenue-bearing GFA means contracted GFA in relation to which the collection of property management fees has started when a property has been delivered or is ready to be delivered (this happens when the delivery notice is given to the first group of property owners). In properties that have been delivered or are ready to be delivered after delivery notices have been given to the first group of property owners in such properties, property developers would pay property management fees on unsold units until such units are sold.

*Community Online and Offline (“**O2O**”) Platform*

Since the launch of the Aidaojia mobile application platform by the Group in June 2015, the application has experienced rapid development.

As of 31 March 2016, the Aidaojia mobile application of the Group covered 2,870 residential properties with approximately 295,000 registered users. The number of orders processed for the month ended 31 March 2016 was 103,900.

## FINANCIAL PERFORMANCE REVIEW

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE THREE MONTHS ENDED 31 MARCH*

| | **2016** | 2015 |
|---|---|---|
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Revenue | **129,487** | 93,658 |
| Cost of sales and services | **(85,357)** | (59,939) |
| Gross profit | **44,130** | 33,719 |
| Other income | **253** | 67 |
| Other gains and losses | **(4,052)** | (3,190) |
| Administrative expenses | **(22,770)** | (7,433) |
| Selling and distribution expenses | **(8,149)** | (1,252) |
| Listing expenses | **–** | (1,173) |
| Finance costs | **(697)** | (287) |
| Profit before tax | **8,715** | 20,451 |
| Income tax expense | **(7,643)** | (6,424) |
| | **1,072** | 14,027 |
| Profit for the period attributable to: | | |
| — Owners of the Company | **953** | 14,157 |
| — Non-controlling interests | **119** | (130) |
| | **1,072** | 14,027 |

### Revenue

As of 31 March 2016, the Group recorded a revenue for the period of RMB129.5 million, representing an increase of 38.3% over the corresponding period in 2015. During the period, the gross profit of the Group was approximately RMB44.1 million, representing an increase of 30.9% over the corresponding period in 2015.

*Breakdown of Revenue by business lines*

| | **For the three months ended 31 March** | | | |
|---|---|---|---|---|
| | **2016** | 2015 | Change | |
| | **(unaudited)** | (unaudited) | | |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *%* |
| Property management services and sale assistance services | **127,688** | 93,658 | 34,030 | 36.3 |
| Revenue from community O2O Platform | **1,799** | – | 1,799 | N/A |
| | **129,487** | 93,658 | 35,829 | 38.3 |

The increase in the Group's revenue was mainly due to increases reflected in both of the business lines.

*Property management and sale assistance business lines.* Revenue from the property management services and sale assistance services for the three months ended 31 March 2016 was RMB127.7 million, as compared to RMB93.7 million for the three months ended 31 March 2015, representing an increase of RMB34.0 million, or 36.3%. The increase in our revenue from property management services and sale assistance services was due primarily to an increase in revenue from property management services as a result of increase in the total revenue-bearing GFA by 1.3 million sq.m., or 8.2%, to 16.8 million sq.m. from 15.5 million sq.m. as of 31 December 2015 as a result of our business expansion.

*Community O2O Platform.* Revenue from the community O2O Platform for the three months ended 31 March 2016 was RMB1.8 million. This revenue was mainly generated from providing of community e-commerce services including high-frequency commodities consuming and delivering, daily living services, as well as offline merchant services for residents through the Group's community O2O platform.

**Cost of Sales and Services**

The Group's cost of sales and services for property management and sale assistance business lines primarily comprises (i) sub-contracting costs, representing the expenses paid to sub-contractors for various services under property management business line; (ii) staff costs; (iii) depreciation expenses associated with equipment and property used in providing services; and (iv) others, primarily representing raw material costs, travelling expenses and communication expenses. For the three months ended 31 March 2016, cost of sales and services for property management and sale assistance business lines increased by 36.4% from approximately RMB59.9 million for the three months ended 31 Mach 2015 to approximately RMB81.7 million. The increase was due primarily to the growth of our business and the corresponding increase in the labor costs and sub-contracting costs. The increase in labor costs was attributable to (i) an increase in the number of employees that we employed directly; and (ii) an increase in the average salary of our employees.

The Group's cost of sales and services for community O2O Platform for three months ended 31 March 2016 was RMB3.7 million, which primarily comprises the cost of daily necessities sold.

**Gross Profit and Gross Profit Margin**

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

| | **For the three months ended 31 March** | | | |
|---|---|---|---|---|
| | **2016** | | 2015 | |
| | **(unaudited)** | | (unaudited) | |
| | ***RMB'000*** | ***% of revenue*** | *RMB'000* | *% of revenue* |
| Property management services and sale assistance services | **46,003** | **36.0** | 33,719 | 36.0 |
| Community O2O Platform | **(1,873)** | **(104.1)** | – | – |
| Total | **44,130** | **34.1** | 33,719 | 36.0 |

Our gross profit for the three months ended 31 March 2016 was RMB44.1 million, as compared to RMB33.7 million for the three months ended 31 March 2015, representing an increase of RMB10.4 million, or 30.9%. Our overall gross profit margin slightly decreased from 36% for the three months ended 31 March 2015 to 34.1% for the three months ended 31 March 2016. The decrease in our gross profit margin was due primarily to the gross loss incurred in community O2O platform.

Our gross profit for the property management and sale assistance business lines for the three months ended 31 March 2016 was RMB46.0 million, as compared to RMB33.7 million for the three months ended 31 March 2015, representing an increase of RMB12.3 million, or 36.4%. Our gross profit margin remains stable. The effect of increase in average price per revenue-bearing GFA was offset by the increase in average salary of employees.

**Other Gains and Losses**

Our other gains and losses for the three months ended 31 March 2016 was a net loss of RMB4.1 million as compared to a net loss of RMB3.2 million for the three months ended 31 March 2015, representing an increase of RMB0.9 million, or 27.0%. The increase in net losses was primarily due to the increase in impairment loss recognized on trade receivables from RMB3.1 million for the three months ended 31 March 2015 to RMB4.0 million for the three months ended 31 March 2016.

**Administrative expenses**

Our administrative expenses for the three months ended 31 March 2016 was RMB22.8 million, as compared to RMB7.4 million for the three months ended 31 March 2015, representing an increase of RMB15.4 million, or 206.3%. The increase in our administrative expenses was primarily due to (i) share-based payments expenses of RMB6.8 million incurred for the three months ended 31 March 2016 (2015: Nil); (ii) an increase in the administrative expenses of RMB2.6 million associated with the operation of community O2O platform; (iii) an increase in the administrative expenses of RMB3.1 million in relation to the compliance and administration after listing.

**Selling and Distribution Expenses**

Our selling and distribution expenses for the three months ended 31 March 2016 were RMB8.1 million, as compared to RMB1.3 million for the three months ended 31 March 2015 representing, an increase of RMB6.8 million. The increase was primarily due to an increase in our business development, marketing and promotion expenses of RMB7.7 million incurred for the community O2O platform.

**Listing expenses**

There is no listing expense incurred for the three months ended 31 March 2016. The listing expenses for the three months ended 31 March 2015 amounted to RMB1.2 million, which primarily consisted of the service fees paid to auditors and other professional parties in connection with the preparation for the global offering.

**Finance Costs**

The Group's finance costs increased from RMB0.3 million for the three months ended 31 March 2015 to RMB0.7 million for the three months ended 31 March 2016, and this increase was primarily due to interests incurred on the bank borrowing amounted to RMB27.0 million.

**Share-based compensation**

The Pre-IPO Share Option Scheme ("**Scheme**") was adopted pursuant to a resolution passed by the Company on 20 April 2015.

On 20 April 2015 and 10 July 2015, the Company granted 54,700,000 and 25,300,000 Pre-IPO share options to its employees and Directors of the Company for which the exercise price is HK$1.72 each. The Pre-IPO share option expense charged to the statement of profit or loss for the three months ended 31 March 2016 was approximately RMB4.2 million.

On 17 July 2015, the Group entered into an agreement ("**Equity incentive Agreement**") with Mr. Luo Tao, the representative of the employees of Hangzhou Yidao Information Technology Company Limited ("**Hangzhou Yidao**"), a wholly owned subsidiary of the Company which is principally engaged in the provision of software and information technology services. Pursuant to the Equity incentive Agreement, up to 33% equity interest of Hangzhou Yidao will be transferred to the employees of Hangzhou Yidao ("**Employees**") at nil consideration by 30 April 2018 upon satisfaction of certain performance targets. On or before 30 April 2019, the Employees have the right to require the Group to repurchase all of the 33% equity interests in Hangzhou Yidao that they received pursuant to the Equity incentive Agreement at a total cash consideration of RMB22 million.

The Group recognised the total expense of RMB2.6 million for the three months ended 31 March 2016 in relation to share options granted by Hangzhou Yidao.

**Income Tax Expenses**

Our income tax expense for the three months ended 31 March 2016 was RMB7.6 million, as compared to RMB6.4 million for the three months ended 31 March 2015, representing an increase of RMB1.2 million, or 19.0%.

The deferred tax assets that resulted from the allowance on doubtful debt amounted to RMB1.0 million was recognised during the three months ended 31 March 2016, as compared to RMB0.8 million for the three months ended 31 March 2015.

**Adjusted Profit for the Period**

Our adjusted net profit was derived from our net profit for the period excluding share-based payment expenses, listing expenses and operating loss incurred for the O2O platform. As these cost items are either non-recurring, non-cash spending or incurred from new business line, the Group believes that separate analysis of the impacts of these cost items adds clarity to the constituent part of the Group's results of operations and provides additional useful information for investors to assess the operating performance of the Group's business. The adjusted net profit is an unaudited figure.

The following table reconciles our adjusted net profit for the period presented to the profit under HKFRS for the period indicated:

| | **For the three months ended 31 March** | |
|---|---|---|
| | **2016** | 2015 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Profit for the period under HKFRS | **1,072** | 14,027 |
| Add: | | |
| Share-based payment expenses | **6,823** | – |
| Listing expenses | **–** | 1,173 |
| Operating loss incurred for the O2O platform | **12,199** | – |
| Adjusted profit for the period | **20,094** | 15,200 |

Adjusted net profit for the period increased from RMB15.2 million of the corresponding period of 2015 to RMB20.1 million, representing an increase of 32.2%.

Owing to the significant commitment by the Group on the development of the O2O business during this period, which is expected to continue as the Group's O2O business develops, the Group has incurred significant costs and expenses (such as selling, marketing, promotion and distribution expenses) in developing and promoting this business in order to enlarge the customer base of the Group. Although the result of the property management business of the Group is expected to grow steadily, as these expenses are not allowed to be capitalised in accordance with the Hong Kong Financial Reporting Standards, which together with the increase in share-based compensation payment, the profits attributable to owners of the Company for the six months ending 30 June 2016 is expected to record a significant decline and may lead to a loss as compared with same period in 2015.

*The Group employs certain non-HKFRS financial figures in measuring the performance of the Group. The presentation of these non-HKFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with HKFRSs. The Group believes that, used in conjunction with HKFRSs financial measures, these non-HKFRS financial measures provide meaningful supplemental information regarding the Group's performance, and both management and the Company's shareholders and investors benefit from referring to these non-HKFRS financial measures in assessing the Group's performance and when planning and forecasting future periods. The Group's management believes that adjusted net profit for the period is a useful financial metrics to assess the Group's operating and financial performance of core business.*

*The Company's shareholders and potential investors should note that the information in this announcement is based on the management accounts of the Group which have not been audited or reviewed by the Group's auditors, Deloitte Touche Tohmatsu. The accounting policies applied in the preparation of the management accounts are consistent with those used for the figures in the 2015 annual report. Any forward-looking statements contained herein are not guaranteed of future performance. Rather they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group and are difficult to predict, that will or may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements. Therefore, such information is provided to shareholders and potential investors as interim information for reference only. The data shown above do not constitute nor should they be construed as invitations or offers to buy or sell any securities or financial instruments of the Group. Nor are they intended as the offer of any investment services or advices.* ***Shareholders of the Company and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.***

This announcement is made by the order of the Board, of which the directors individually and jointly accept responsibility for the accuracy of the information contained in this announcement.

On behalf of the Board
**Zhong Ao Home Group Limited**
**LIU Jian**
*Chairman and Chief Executive Officer*

Hong Kong, 24 June 2016

*As at the date of this announcement, our executive directors are Mr. Liu Jian, Ms. Chen Zhuo, Mr. Liang Bing, Mr. Long Weimin, our non-executive directors are Mr. Wei Zhe, Ms. Wu Qimin, Mr. Lam Yiu Por, and our independent non-executive directors are Mr. Zhang Weilun, Mr. Lee Kwok Tung Louis, Mr. Yuan Boyin, and Mr. Wu Haibing.*