ZALL 卓尔

Zall Smart Commerce Group Ltd.
卓爾智聯集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2098

西部陆港中心

北方（天津）陆港中心

汉口北
国际商品交易中心

南方陆港中心

中部（武汉）陆港中心

Annual Report 2018

Contents

About

Zall Smart Commerce Group Ltd.

The Group is the leading developer and operator of large-scale, consumer product focused wholesale shopping malls, as well as commercial space provider, in the PRC. The Group also constructs and operates B2B trading platforms for consumer goods, agricultural products, chemicals, plastic raw materials, black and non-ferrous metals, etc., and provides services such as finance, property, logistics, cross-border trading, and supply chain management based on the trading scenario and transaction data.

Corporate Information

DIRECTORS

Executive Directors	Mr. Yan Zhi *(Co-Chairman and Co-Chief Executive Officer)* *(re-designated as Co-Chief Executive Officer on 6 July 2018)* Dr. Gang Yu *(Co-Chairman)* Mr. Wei Zhe, David Mr. Qi Zhiping *(Co-Chief Executive Officer)* *(appointed on 6 July 2018)* Mr. Cui Jinfeng Mr. Peng Chi *(resigned on 6 July 2018)*
Independent Non-Executive Directors	Mr. Cheung Ka Fai Mr. Wu Ying Mr. Zhu Zhengfu
Registered Office	Cricket Square Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office in the PRC	Zall Plaza No. 1 Enterprise Community 1 Chutian Avenue Panlongcheng Economics and Technology Development Zone Wuhan, Hubei Province China 430000
Principal Place of Business in Hong Kong	Suite 2101, 21/F Two Exchange Square Central Hong Kong
Audit Committee	Mr. Cheung Ka Fai *(Chairman)* Mr. Wu Ying Mr. Zhu Zhengfu
Nomination Committee	Mr. Wu Ying *(Chairman)* Mr. Yan Zhi Mr. Cheung Ka Fai

Corporate Information

Remuneration Committee	Mr. Zhu Zhengfu *(Chairman)* Mr. Qi Zhiping *(appointed on 6 July 2018)* Mr. Peng Chi *(resigned on 6 July 2018)* Mr. Wu Ying
Risk Management Committee	Mr. Zhu Zhengfu *(Chairman)* Mr. Cui Jinfeng Mr. Cheung Ka Fai
Company Secretary	Ms. Foo Man Yee, Carina *(appointed on 31 July 2018)* Mr. Lung Shei Kei *(resigned on 31 July 2018)*
Company Website	http://www.zallcn.com/
Authorized Representatives	Mr. Cui Jinfeng Ms. Foo Man Yee, Carina *(appointed on 31 July 2018)* Mr. Lung Shei Kei *(resigned on 31 July 2018)*
Hong Kong Share Registrar	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Principal Share Registrar and Transfer Office	SMP Partners (Cayman) Limited 3rd Floor, Royal Bank House 24 Shedden Road P.O. Box 1586 Grand Cayman KY1-1110 Cayman Islands
Legal Advisor	P.C. Woo & Co. Sidley Austin
Auditors	KPMG Certified Public Accountants
Principal Bankers	China Construction Bank China Mingsheng Banking Corp., Ltd. Industrial and Commercial Bank of China China CITIC Bank

Financial Highlights

	2018 RMB'000	2017 RMB'000
Revenue	56,116,072	22,249,176
Gross profit	1,559,600	1,012,255
Gross profit margin	2.8%	4.5%
Profit for the year	1,273,907	2,356,482
Earnings per share – Basic (RMB cents)	11.76	21.23
– Diluted (RMB cents)	11.75	21.23
Total non-current assets	28,820,778	23,939,482
Total current assets	24,260,340	23,404,146
Total assets	53,081,118	47,343,628
Total non-current liabilities	9,817,742	9,275,286
Total current liabilities	23,654,563	19,407,455
Total liabilities	33,472,305	28,682,741
Net assets	19,608,813	18,660,887

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Zall Smart Commerce Group Ltd. ("Zall", "Zall Smart Commerce" or "the Company"), I am pleased to present the annual report of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2018.

EMPOWERING SMES THROUGH TECHNOLOGY AND LEADING THE DEVELOPMENT OF INDUSTRIAL INTERNET

There are over 110 million business entities in China, creating a huge consumption market for the means of production. Unlike the fully developed Internet-based consumer market, there are still many longstanding problems in the circulation of the means of production in China, such as information asymmetry, high circulation cost, low trade efficiency and lacking an environment for the use of credit, which lead to allocation mismatch and waste of resources and internetization of transaction of the means of production is still in its initial stage. The development of Internet technology has gradually promoted the evolution and upgrading of modern supply chain, especially with the emergence of a new round of technology trends, such as big data, Internet of Things, digital currency, block chain, etc., enterprises are empowered through technology and the industrial Internet for achieving "quality improvement and efficiency enhancement" and "burden alleviation and cost reduction" is now opened to significant development opportunities.

Through the practical exploration of Zall's intelligent trading ecosphere, we believe that a large number of new technologies such as Internet of Things, block chain, artificial intelligence, big data, etc., will drive B2B into a higher stage of development, and bring forth transformative characteristics for the industrial Internet: the complete integration of logistics, information flow and capital flow, and automation aided decision-making gives birth to epoch-making trade efficiency; the application of technology will establish a consensus mechanism with high reliability and the new credit system established through application of technologies will ensure the authenticity, safety and efficiency of trade. Intelligent and data-based trade will facilitate the globalization and convenience of trade. At the same time, with the development of B2B, an intelligent supply chain ecosystem will be built to promote the establishment of clear and effective data support for the intelligentization of industries.

The new trading pattern will comprehensively improve supply efficiency, promote the huge consumption market of the means of production in China to initiate and connect to Internet Plus and Intelligence Plus, and contribute to the transformation and upgrading of the industrial chain.

Zall Smart Commerce closely follows the development trend of the Internet, and has established a unique intelligent trading ecosphere that integrates online and offline channels, trading and services. At the same time, it has grasped the opportunity of a new generation of technological changes to promote the application of advanced technology in different transaction scenarios, create the modern supply chain with intelligent technology, innovate service modes, expand service scopes, and strive to reduce transaction costs for SMEs and improve the transaction efficiency for various industries.

Chairman's Statement

In 2018, Zall Smart Commerce continued to enrich its platform and achieved steady growth in performance through mutual empowerment and coordinated development. The Group made breakthroughs in its globalization process, with rapid development of its international business such as commodity trade. Continuous efforts made in research and development and application of new technologies and the solid technology foundation strengthened the core competitiveness of the Group for the exploration of new development opportunities. Zall Smart Commerce led the development of industrial Internet and strode forward to become a leading open and intelligent B2B trading and service institution in the world.

I. DEEPLY INTEGRATING VARIOUS PLATFORMS TO ACHIEVE COORDINATED DEVELOPMENT OF THE TRADING ECOSPHERE

Through the development of online and offline integration and advancement of internetization in the past three years, the Group has successfully transformed and upgraded into an operator of industrial Internet trading ecosphere. Following the integration of LightInTheBox Holding Co., Ltd. ("LightInTheBox") (a leading cross-border e-commerce platform), Shenzhen Sinoagri E-commence Co., Ltd.* (深圳市中農網有限公司) ("Shenzhen Sinoagri") (an agricultural products e-commerce platform) and HSH International Inc. ("HSH") (a chemical and plastic raw materials e-commerce platform) into Zall's trading ecosphere, the Group established Shanghai Zall Steel E-commerce Co., Ltd. (上海卓鋼鏈電子商務有限公司) ("Zall Steel") with Xiben New Line in March 2018 and together with its subsidiaries acquired 22% of equity interest of Ningbo Haishangxian Information Technology Co., Ltd. (寧波海上鮮信息技術有限公司) ("Haishangxian") in April 2018, forming a B2B trading platform matrix covering daily consumer goods, agricultural products, chemicals, iron and steel, fresh food, etc.. Committed to the idea of "Connecting global business intelligently", we have officially changed the company name to "Zall Smart Commerce" in May 2018 as a demonstration of our decision to change and strengthen our positioning.

In 2018, following the deep integration and mutual empowerment of various platforms within the ecosphere of the Group, the business scale and the number of customers increased significantly benefited from the synergy effect. Shenzhen Sinoagri actively expanded its new business and has made significant breakthroughs in the entire service process of supply chain of new types of dried fruits and vegetables. With the gradual development of overseas export business, its brand value has gained market recognition, further consolidating its leading position in the vertical e-commerce field. HSH, with focus on its main varieties and developed high-quality suppliers, had its market share gradually increased. The Group started strategic cooperation with Z-bank to expand various B2B platforms' business scale. And relying on the Group's ecosphere resources to expand its business scope, Zall Steel gradually enhanced its position in the black commodity industry.

With physical entities as the cornerstone and support and trading platform as the core, the comprehensive cross-category supply chain service platforms of Zall Financial Services Group Limited ("Zall Jinfu") (卓爾金服), Zall Cloud Warehouse (卓爾雲倉) and Zallsoon (卓集送) established by the Group develop in a coordinated manner and operate smoothly, which will continuously provide convenient, safe, efficient and intelligent financial, warehousing and logistics services for various platforms within the ecosphere and get connected to the entire B2B trading ecosphere system of Zall. At the same time, it further strengthens the loyalty of customers for its platform services and obtains indepth service opportunities through transaction scenarios, thus realizing the commercial value of the ecosphere.

In 2018, the supply chain financial platform "Zall Jinfu" initially established a complete risk control system of "credit factory" for enterprises within the ecosphere, improved the risk control system of the Group, optimized the comprehensive connection to the process of loan approval, lending and post-lending processes, and ensured the stable operation of the Group. During the year, Zall Jinfu has completed financial loan transactions of approximately RMB1.733 billion for upstream and downstream enterprises in the supply chain. The intelligent warehouse platform "Zall Cloud Warehouse" gradually completed connection with various platforms and with warehouses in over 40 cities in China, covering a total warehousing area of over 12 million square meters and weight of goods of approximately 1.06 million tonnes. The logistics delivery platform "Zallsoon" which focuses on platform customers and increased its foothold in various fields with accumulated total orders exceeding 67 million in 2018.

II. STEADILY EXPANDING BUSINESS AND GRADUALLY PROMOTING GLOBALIZATION PROCESS

In 2018, leveraging on the dynamic B2B trading ecosphere, good Internet service ability and its penetration and influence in the Chinese commodity sector, both online and offline businesses of Zall's trading ecosphere gradually connected to the international market.

In respect of the offline market, in 2018, North Hankou International Trade Center comprehensively developed its new foreign trade business and reached cooperation agreements with well-known enterprises in Nordic countries. The completion of North Hankou Zall MOMA and Nordic Pavilion, and the opening of Nordic Commodity Cross-border E-commerce O2O Trading and Exhibition Center started a new journey to build a global distribution center for commodity import and export. The "GSP Global Supplier Platform" issued by North Hankou at the China International Import Expo in 2018 served as a bridge connecting the world trade. With the introduction of implementation plans of China (Wuhan) Cross-Border E-Commerce Comprehensive Pilot Zone, North Hankou was listed as a priority area for the development of cross-border e-commerce.

In May 2018, the Group jointly invested with Asian Gateway Investment Pte Ltd., a wholly-owned subsidiary of Singapore Exchange Limited, and Global eTrade Services Company Limited ("GeTS") for the incorporation of a joint venture, Commodities Intelligence Centre Pte. Ltd., ("CIC") in Singapore. Six major categories of goods, including chemical plastics, non-ferrous metals, black metals, agricultural products, palm oil and fuel oil, were launched on the platform, providing commodity trade matching, one-stop logistics, customs clearance, finance and big data services for traders around the world. Leveraging on the advantages of Singapore commodity trading resources, convenient customs clearance, geographical and financial connectivity, CIC fully released the potential to serve world trade and closely connected China commodity transactions with the world market. Since the launch of the trading platform in October, matchmaking business amounted to US$1.75 billion and self-operated business amounted to US$124 million as at 31 December 2018. The Group has achieved remarkable results through application of data from the international market, significantly increased the platform activity, improved service functions and facilitated business development through business channelling and GeTS data application.

III. EMPOWERING THROUGH TECHNOLOGY TO BUILD CORE COMPETITIVENESS AND EXPLORE NEW DEVELOPMENT OPPORTUNITIES

With the advent of a new round of scientific and technological revolution and industrial innovation, new technologies such as block chain, Internet of Things, artificial intelligence, big data, etc., will gradually overturn the traditional pattern and landscape of commodity trade. Block chain technology can be used to solve the problems of trust mechanism, commodity traceability, trade security, payment credit in commercial trade; the Internet of Things technology will create traceable intelligent supply chain logistics with digital perception and visualization of commodities during the whole process; and artificial intelligence technology will be used to detect the demand, sales prediction, financial support, intelligent credit investigation, logistics distribution, service crowdsourcing, etc, in commercial trade. The Group is integrating resources to vigorously realize the transformation from business-driven to dual-wheel driving by business and technology, and build a new intelligent trading platform based on the application of block chain technology, with the support of Internet of Things, artificial intelligence, digital currency and big data.

Over the years, we have made continuous investment in technology research and development. At present, Zall Smart Commerce has built up a technical team with more than 600 people. In 2018, the Group established Zall Smart Commerce Research Institute specializing in the research and development of block chains, Internet of Things, artificial intelligence, big data, etc. It provides WMS (warehousing management system), TMS (transportation management system), OMS (order management system), credit factory (risk control and management), factoring platform, payment settlement and clearing platform, data bus, Internet of Things/Internet of Vehicles system, supervisory warehouse system, master data system and other system software for platforms in the ecosphere, and constantly improves and optimizes such systems based on various trading scenarios.

As a technology applied to new trading tools and platforms, block chain has the characteristics of non-tampering, decentralization or weakening centralization, multi-consensus and smart contract, and serves as the infrastructure technology application for Zall Smart Commerce in building a new generation of intelligent trading platform. In 2018, the Group actively explored the technological solutions of block chain in B2B, and made significant breakthroughs by constantly adjusting and building scenarios for its application.

In January 2019, Shenzhen Sinoagri officially launched the first "bulk agricultural products circulation block chain" in China, aiming to address the difficulties in the circulation of agricultural products, realize data authenticity, trustworthiness and traceability, improve the overall efficiency of agricultural supply chain, and help customers to better save costs and allocate resources, and empower the upgrading of industrial chain through technology. With these efforts, Zall Smart Commerce has taken a firm step of empowering the traditional industries through its super supply chain management portal.

In the future, Zall Smart Commerce will continue to make further investments in technology research and development, explore more application scenarios for integration of block chain with big data, artificial intelligence and enterprise applications, and help upgrade the supply chain within the ecosphere.

IV. BUILDING AN OPEN AND INTELLIGENT TRADING ECOSPHERE AND LEADING THE DEVELOPMENT OF INDUSTRIAL INTERNET

With the mission of "Connecting global business intelligently, and creating value for clients", Zall Smart Commerce is now pooling resources to achieve the unrestrained flow of data, customers, logistics, warehousing, finance and supply chain management with all efforts, so that enterprises and customers can have the real experience of a huge market, less inventory, higher turnover, lower cost, a lightened supply chain, and more profitability. In addition, it can also help enterprises and SMEs in China and the world at large to reduce transaction costs, so as to provide the best solution for their procurement, distribution, payment, and logistics with our services.

With the deep integration of supply chain and new technologies such as block chain, Internet of Things, artificial intelligence, digital currency and big data as its path, and support of informatization, standardization, credit system construction and talent cultivation, Zall Smart Commerce will innovate and develop new ideas, new technologies and new modes of supply chain, integrate all kinds of resources and elements efficiently, enhance the level of industrial integration and collaboration, and create an intelligent supply chain system with big data support, network-based sharing and intelligent collaboration, empower SMEs through science and technology, and lead the development of industrial Internet.

Linkage and sharing are both important attributes of the Internet, while openness and cooperation are the inevitable logical trend of scientific and technological progress and productivity development. In the future, Zall's trading ecosphere will expand from the interconnected internal ecology to the open and shared social ecology, providing traffic entry and technical support for various B2B trading platforms and service institutions, and improving the degree of market openness.

The infrastructure platform of Zall Smart Commerce's open B2B block chain is open to all transaction service institutions and financial institutions. The entire B2B supply chain can be connected swiftly by multi-terminal information synergy and smart contract mechanism to achieve information transparency and sharing, for the building of an efficient, low-cost, open and win-win B2B ecological system.

We hope that more partners will join us in the construction, use and operation of the Zall ecological system, realize our goal of sharing of prime resources and upgrading of services through gathering efforts, and improve the degree of market openness. We look forward to working hand in hand with more Chinese and international enterprises enjoy growing together, redefine B2B and even the mode of world trade, and welcome the advent of the new trade era.

Yan Zhi
Co-chairman

Hong Kong, 29 March 2019

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Consumer product-focused wholesale

The Group's heavily invested core project, the North Hankou International Trade Center has now formed 30 large specialized market clusters covering footwear and leatherware, branded clothing, hotel supplies, small merchandises, bedding, automobile and second-handed vehicles, hardware and electrical products, etc., with merchants reaching 32,000 operating stably. The total developed and developing area of market clusters exceeded 6.8 million square meters. The annual transaction amount achieved in 2018 was RMB87.3 billion.

In 2018, various new markets and businesses including Central Business New City, Hotel Supplies City, Brand Street, Puyuan Fashion City, Books E-commerce City, Food World, Hotel Supplies International Pavilion, Flower World, Electronic and Electrical City etc. were opened in the North Hankou International Trade Center which further enhanced the scale of specialized markets in North Hankou. The Group has organized various large-scale marketing activities such as order fairs, internal purchase fairs, procurement days, exhibition fairs, exchange salons, etc. for a total of 56 times in 2018. Such events included the 9th China Hankoubei Commodity Fair that highlighted the theme of internationalization, the first Central China Import Commodity Expo, the Nordic Goods Cross-border O2O Exhibition Fair, North Hankou Luxury Trade Fair, Food and Trend Carnival, International Food Exhibition etc attracting over 100,000 citizens to visit. The Group actively organized the "2018 Wuhan Online Shopping Festival" to gain access to the online marketing resources, and cooperated with Taobao to create the "Taobao Live Broadcast Industry with Live Broadcast Base" and held the "Taobao Industry with Live Broadcast Wuhan Event". Through various exhibition activities, popularity and prosperity of the markets were greatly promoted and a large number of merchants have been attracted.

In 2018, the Group strengthened the pilot construction of the national market procurement and trading mode and comprehensively deepened the development of new foreign trading business and achieved an annual export amount of USD1.277 billion with a year-on-year increase of 66.28%. In November 2018, North Hankou officially launched the "GSP Global Suppliers Platform" at the China International Import Expo, which has shared more than 100,000 entries of information for international suppliers and more than 600,000 entries of information for Chinese suppliers and built a bridge for worldwide trading. In December 2018, China (Wuhan) cross-border E-commerce comprehensive pilot zone implementation plan was introduced in which North Hankou was listed as a priority area for cross-border E-commerce development. In addition, the Zall Wanguo City and the Nordic Pavilion were completed in North Hankou and the Nordic Goods Cross-border O2O Trading Exhibition Center was established by the Group. A new development journey for the global import commodity distribution center has begun.

Tianjin E-commerce Mall is the Group's flagship project in Northern China. Portions of the commercial, trade and e-commerce zones of Phase I have commenced operation gradually. Against a background of cooperative development in the Beijing-Tianjin-Hebei region and the easing of Beijing's non-capital core function, Tianjin E-commerce Mall has been absorbing an increasing number of Beijing's large wholesale markets. As of 31 December 2018, over 6,000 merchants were stationed at Tianjin E-commerce Mall. Dongpi Clothing Wholesale New Market (動批服裝新城), Jinwen Clothing Mall (津溫服裝商城), Zall Fashion City (卓爾精品服裝城), Zall Tianle Mall (卓爾天樂商城), Zall Red Gate Morning Market (卓爾紅門早市) of Tianjin E-commerce Mall Phase I has commenced operation in April 2018. Tianjin E-commerce Mall grasped the opportunities following the trend of Beijing easing and established procurement routes to Tianjin Old DaHutong (天津老大胡同), different areas of Tianjin and Beijing as well as the long-distance procurement bus routes to Inner Mongolia, Northeastern China, Shanxi, Shandong, Hebei etc. The passengers transportation system of Tianjin Old wholesale markets was completely undertaken by the Group and has formed a logistics network that covering Eastern China, Southern China, Central China, Northern China, Northeastern China, Northwestern China regions respectively. The Group's position of the largest clothing wholesale and procurement central market in Northern China was gradually strengthened.

Supply chain management and trading

As the Group continues to strengthen and expand its e-commerce, internet and intelligent trading businesses, the Group has acquired and established various companies in the industrial internet sector focusing on the construction and operation of intelligence transactions and services platforms. The Group has established B2B trading platform matrix for agricultural products, chemicals and plastic raw material, black metal and non-ferrous metal, etc.

Shenzhen Sinoagri has devoted in the agricultural products B2B vertical e-commerce sector for years and is mature in B2B trading platform and supply chain management. In 2018, prices of bulk commodities including white sugar continued to decrease. Despite such unfavourable market environment, Shenzhen Sinoagri has maintained a stable growth in transaction amount. In 2018, Shenzhen Sinoagri has provided whole supply chain service solutions in the fields of trading, information, settlement, finance and logistics to over 70,000 manufacturers, processing enterprises, suppliers and terminal suppliers in both upstream and downstream. In 2018, the new product variety of Shenzhen Sinoagri, the dried fruit and vegetable business operated smoothly and 11 warehouses were set up in different places such as Shandong, Jiangsu, Inner Mongolia and Gansu with transaction scale exceeded RMB100 million. Meanwhile, Shenzhen Sinoagri has completed the preparation for the launch of soybean variety and has provided whole supply chain services for both upstream and downstream clients of the soybean industry. A breakthrough was made in overseas export business with a cross-border trading scale of USD12.36 million which was achieved in the exports to countries such as Thailand, Vietnam and India etc. As of 31 December 2018, the registered members of Shenzhen Sinoagri reached 78,901. The brand value of Shenzhen Sinoagri was further recognized by the government and the industry. Shenzhen Sinoagri was honoured as Top 500 Chinese Enterprises (ranked the 486th), and it has successively entered Top 100 Chinese B2B Industry List (ranked the 7th) and listed in the Top 500 Shenzhen Enterprises (ranked the 37th). As of 31 December 2018, the annual revenue of Shenzhen Sinoagri amounted to approximately RMB35 billion, representing an increase of approximately 7.31% as compared to the corresponding period of 2017.

In March 2018, the Group completed the acquisition of 52.48% equity interest in HSH and became the controlling shareholder of HSH. As a chemical e-commerce operator that leads the future, HSH is committed to promoting the infrastructure construction of the "Internet + chemical and plastics raw materials", opening up the closed loop of transaction of information flow, logistics and capital flow in the whole industrial chain for chemical and plastics raw materials and constructing a new ecosystem for entire chemical and plastics raw materials industry industrial chain. In 2018, HSH adjusted the operating structure and focused on developing large and medium-sized quality suppliers. With further focusing on the main products, HSH gradually optimized some non-main SKU commodities and devoted to strengthen the main products which increased market share. In 2018, the number of self-operated orders amounted to 15,464, representing a year-on-year increase of approximately 10.03%; the number of clients reached 39,295, representing a year-on-year increase of approximately 14.61%; and the annual revenue amounted to RMB13.5 billion, representing a year-on-year increase of approximately 93.13%.

Management Discussion and Analysis

In March 2018, the Group established Zall Steel with Xiben New Line. Zall Steel mainly provides overall integrated supply chain services and solutions for trading, warehousing and processing, supply chain finance and other services to upstream and downstream supply chain partners. Since its establishment on 23 March 2018, Zall Steel has formed business partnerships with approximately 1,500 upstream and downstream customers. As of 31 December 2018, Zall Steel has realized operating revenue of RMB5.7 billion.

In April 2018, the Group acquired 22% of equity interest of Haishangxian. Haishangxian provides an integrated one-stop platform for seafood buyers and sellers with maritime communications, trading platform, supply chain finance and related value-added services. By investing in Haishangxian, the Group will also expand its business to the fishery industry and fresh seafood supply chain field and further expand the coverage of Zall intelligent trading ecosystem.

In May 2018, the Group jointly invested with Asian Gateway Investment Pte Ltd., a wholly-owned subsidiary of Singapore Exchange Limited, and GeTS for the incorporation of a new corporation, CIC in Singapore. CIC mainly engages in construction and operation of online global commodities trading platform, provision of transaction matching, transaction financing, supply chain and logistics services and provision of trade data to enhance trade facilitation so as to help enterprises to reduce transaction costs. Since the launch of the platform in October and up to 31 December 2018, the matched transaction amounted to USD1.75 billion and the proprietary transaction amount reached USD124 million. CIC discussed with Marubeni Corporation in Japan, one of the Global 500 enterprises, for cooperation in the late 2018 and officially entered into a strategic cooperation agreement in the early 2019. The parties will carry out in-depth cooperation in sectors such as agricultural industrial internet, international supply chain finance, food deep processing. Relying on each other's advantages in globalized business and resource and technology accumulation, the parties will jointly expand the Chinese and the world market.

Through the integration online and offline of development in recent years, the Group has set up and operated B2B trading platforms which have significant impacts on agricultural products, chemicals, plastics raw materials, black metal and non-ferrous metals, with notable growth in supply chain management and trade performance. When suitable opportunities arise, the Group will further develop into other sectors through organic growth or mergers and acquisitions, continue to enrich and enhance Zall's intelligent trading ecosphere and to further improve operating efficiency.

Finance, warehousing and logistics services

Zall Jinfu focuses on the strategic objectives of the Group's, relies on the blockchain to provide the underlying technology of the Group's intelligent commercial trading ecosphere to create products and solutions that are differentiated from traditional financial institutions, connects completely with the commerce, logistics, and e-commerce platform systems of the Group to provide all-rounded diversified financial services. For the year ended 31 December 2018, Zall Jinfu has accumulated handling approximately RMB1.733 billion of financial loans for upstream and downstream enterprises of the supply chain based on the transactions and supply chain trading management platforms such as North Hankou market (漢口北市場), Zall Cloud Market (卓爾雲市) and Zall Commerce (卓爾雲商) etc.

In respect of warehousing services, Zall Cloud Warehouse (卓爾雲倉), a subsidiary of the Group, focuses on the provision of offline warehouse goods custody services, warehouse leasing and financial products regulatory services for enterprises and their downstream distributors, wholesale markets through the integration of physical delivery, logistics network construction and transportation, supply chain financial risk regulation and other logistics industry chain resources within the trading sections of the ecosystem. As of 31 December 2018, Zall Cloud Warehouse has successfully linked with multiple enterprises within the Group with businesses distributed in 40 cities such as Shanghai, Shenzhen, Qingdao, Ningbo, etc. The number of regulatory inventory warehouses reached 260 with an area of over 12 million square meters and a total inventory of approximately 1.06 million tons. Moreover, Zall Cloud Warehouse has strategically cooperated with industries such as maternal and child, electrical appliances, clothing, fast-moving consumer goods and reached cooperation intentions with over 20 merchants.

In respect of logistics services, Zallsoon (卓集送), a subsidiary of the Group, mainly focuses on city distribution freight, intercity long-distance freight and cold chain specialized vehicles. It provides customized logistics solutions to customers by using big data technology to reduce logistics costs and enhance transportation efficiency. Zallsoon also cooperates with motor car and new energy vehicle manufacturers through finance leases and provides value-added services for vehicle sales, recruitment of drivers and the automobile aftermarket (e.g. vehicle insurance, maintenance, fueling, etc), all of which ensures a stable and controllable core transport capacity for the platform and solves the problem of traffic restrictions in some cities. As of 31 December 2018, Zallsoon has accomplished the layout in 37 core logistics cities including Wuhan, Shanghai, Nanjing, Guangzhou, Shenzhen, Tianjin, Xuzhou, Dongguan, Zhengzhou, Beijing, etc. Zallsoon focused on the industry customers and expanded business scopes to e-commerce, express delivery, O2O, new retail, fresh food, etc. and reached national transportation cooperation with many globally well-known enterprises. As of 31 December 2018, Zallsoon provides services to approximately 200,000 cargo owners with over 100,000 active drivers on its platform. Accumulated number of orders in aggregate amounted to nearly 67 million, with over 120,000 orders in the busiest day during the year.

FUTURE PROSPECTS

Through the online and offline integration development and advancement of internetization in the past three years, "Zall Smart Commerce" has been committed to the construction of the B2B trading platform matrix. We construct and operate B2B trading platforms for consumer goods, agricultural products, chemicals, plastics, non-ferrous metals, etc. and provide services such as finance, property, logistics, cross-border trading, and supply chain management based on the trading environment and transaction data. Moreover, we are riding on the technological development trend. By the application of technologies such as the Internet of Things and blockchain, enriching trading varieties continuously and expanding the trading area through the "Commodities Intelligence Centre" managed in cooperation with the Singapore Exchange, the Group is building a global commodity intelligent trading platform and service system.

After the early-stage planning and exploration, we have accumulated sufficient trading volume, valuable talent reserves, big data processing capabilities, intelligent technology. Therefore, the Zall intelligent trading ecosphere has now reached a critical point of development. In the meantime, we have to concentrate resources and realize the smooth connection and operation of all major platforms in terms of data, clients, logistics, warehousing, finance, supply chain management, etc., so that enterprises and clients can truly enjoy the benefits of a bigger market and lower inventory level with higher turnover, reduced cost, streamlined supply chain and more profitability. Our clients can therefore experience the concrete changes, thus establishing the outstanding reputation of Zall Smart Commerce in China and the world commodity trading market.

Management Discussion and Analysis

INVESTMENT PORTFOLIO

The portfolio of listed equity investments of the Group as at 31 December 2018 and 31 December 2017 were as follows:

As at 31 December 2018

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost RMB'000	Carrying amount as at 31 December 2018 RMB'000	Unrealised holding loss arising on revaluation for the year ended 31 December 2018 RMB'000	Realised holding loss arising on disposal for the year ended 31 December 2018 RMB'000	Dividend received for the year ended 31 December 2018 RMB'000
00607.HKEX	Fullshare Holdings Limited ("Fullshare")	613,880,000	3.11%	685,837	968,187	(879,148) (Note)	(75,173)	10,922

Note: The unrealised holding gain included the exchange gain of approximately RMB44.52 million for the year ended 31 December 2018.

In addition, the Group has disposed the 2,730,000 shares in China High Speed Transmission Equipment Group Co., Ltd. ("China Transmission") (00658.HKEX) held as at 31 December 2017 and made a realised holding loss of approximately RMB5.1 million for the year ended 31 December 2018. The principal activities of China Transmission are research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use.

As at 31 December 2017

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost RMB'000	Carrying amount as at 31 December 2017 RMB'000	Unrealised holding (loss)/gain arising on revaluation for the year ended 31 December 2017 RMB'000	Realised holding gain arising on disposal for the year ended 31 December 2017 RMB'000	Dividend received for the year ended 31 December 2017 RMB'000
00607.HKEX	Fullshare	695,497,500	3.53%	773,985	2,092,944	(149,601) (Note)	–	10,207
00658.HKEX	China Transmission	2,730,000	0.17%	16,739	30,807	14,068	3,050	–
					2,123,751	(135,533)	3,050	10,207

Note: The unrealised holding loss included the exchange loss of approximately RMB146.5 million for the year ended 31 December 2017.

The performance and prospects of the listed equity investments during the year are as follows:

As at 31 December 2018, the Group held approximately 613,880,000 (31 December 2017: 695,497,500) shares in Fullshare, representing approximately 3.11% of its entire issued share capital (31 December 2017: 3.53%). Fullshare is listed on the main board of the Stock Exchange. Its principle activities are property development, tourism, investment, provision of healthcare products and services business and new energy business. The Group recognised an unrealised holding loss of approximately RMB879.1 million, including exchange gain of approximately RMB44.52 million for the year ended 31 December 2018 (31 December 2017: unrealised holding loss of RMB149.6 million including exchange loss of approximately RMB146.5 million). The carrying amount of investment in Fullshare accounts for approximately 1.82% of the Group's total assets as at 31 December 2018 (31 December 2017: 4.42%). The Group is of the view that the unrealised holding loss: (i) did not cover other items of the Group's results for the year ended 31 December 2018 and (ii) is non-cash in nature and relates to the change in fair value of the Group's investment in Fullshare that are volatile in nature, the unrealised holding loss will not adversely affect the Group's operating financial positions. The Group will closely monitor the performance of its investment and adjust its investment plan and portfolio when necessary.

Management Discussion and Analysis

RESULTS OF OPERATION

Revenue

Revenue of the Group increased significantly by approximately 152.2% from RMB22,249.2 million for the year ended 31 December 2017 to approximately RMB56,116.1 million for the year ended 31 December 2018. The increase was primarily due to the offsetting effect of (i) the significant increase in revenue from supply chain management and trading business; (ii) the increase in rental income; (iii) the decrease in revenue from E-commerce and financial service business; (iv) the decrease in revenue from construction contracts; and (v) the decrease in the revenue from sales of properties and related services.

Revenue from supply chain management and trading business

The Group's revenue from supply chain management and trading business has contributed approximately 96.4% of the Group's total revenue for the year ended 31 December 2018. The significant increase in revenue from supply chain management and trading business was primarily attributable to (i) completion of the acquisition of 50.6% equity interest in Shenzhen Sinoagri in June 2017, resulting the consolidation of the financial results of Shenzhen Sinoagri for the full year impact in the year ended 31 December 2018 as compared to the consolidation of the financial results of six month upon completion of such acquisition in June 2017 during the year ended 31 December 2017; and (ii) completion of the acquisition of 52.48% equity interest in HSH in March 2018, resulting the consolidation of the financial results of HSH since then.

Rental income

The Group's rental income increased significantly by approximately 81.8% from RMB486.3 million for the year ended 31 December 2017 to RMB884.2 million for the year ended 31 December 2018. The increase was primarily due to an increase in rental areas in the North Hankou Project.

Financing income

The Group's financing income increased by 62.5% from RMB195.2 million for the year ended 31 December 2017 to RMB317.2million for the year ended 31 December 2018. The increase was mainly due to full year impact of Shenzhen Sinoagri consolidation.

Revenue from E-commerce and financial services business

The Group's revenue from e-commerce and financial services business decreased by approximately 10.6% from RMB118.6 million for the year ended 31 December 2017 to RMB106.1 million for the year ended 31 December 2018. The decrease was mainly due to the slightly reduction in volume of E-commerce transactions in 2018.

Revenue from construction contracts

The Group's revenue from construction contract to build certain properties on behalf of a third party decreased significantly by approximately 83.8% from RMB30.9 million for the year ended 31 December 2017 to RMB5.0 million for the year ended 31 December 2018. The revenue was recognised according to the actual cost incurred for the year ended 31 December 2018. The decrease for the year 2018 was primarily due to projects being at their completion stage in the year under review.

Revenue from sales of properties and related services

Revenue from sales of properties decreased by approximately 10.1% from RMB759.5 million for the year ended 31 December 2017 to RMB682.8 million for the year ended 31 December 2018.

The Group's revenue from sales of properties was generated from the sales of auxiliary facilities units, office and retails units and residences. The decrease in revenue from sales of properties was mainly attributed to the decrease in the gross floor area delivered in 2018.

Cost of sales

Cost of sales of the Group increased significantly by approximately 156.9% from approximately RMB21,237.0 million for the year ended 31 December 2017 to approximately RMB54,556.5 million for the year ended 31 December 2018. The increase is primarily due to full year impact of Shenzhen Sinoagri and completion of acquisition of HSH, cost of inventories of which was approximately RMB45,531.4 million for the year ended 31 December 2018.

Gross profit

Gross profit of the Group increased by approximately 54.1% from approximately RMB1,012.3 million for the year ended 31 December 2017 to approximately RMB1,559.6 million for the year ended 31 December 2018. The Group's gross profit margin decreased from 4.5% for the year ended 31 December 2017 to 2.8% for the year ended 31 December 2018 which is mainly due to the changes of the revenue portfolio of the Group since the completion of acquisition of a majority equity interest in Shenzhen Sinoagri and HSH in June 2017 and March 2018 respectively. Given the characteristics of initial development of the supply chain management and trading business, it has contributed higher revenue but lower gross profit margin.

Other net loss

Other net loss of the Group increased by approximately 1,229.6% from approximately RMB39.9 million for the year ended 31 December 2017 to approximately RMB530.5 million for year ended 31 December 2018. The increase was mainly due to the increase in the loss arising from net fair value change on listed equity securities of approximately RMB743.6 million.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately 8.8% from RMB196.4 million for the year ended 31 December 2017 to approximately RMB213.7 million for the year ended 31 December 2018. The increase was primarily due to the increase in staff costs of approximately RMB17.6 million.

Administrative and other expenses

Administrative and other expenses of the Group increased by approximately 54.5% from RMB492.5 million for the year ended 31 December 2017 to approximately RMB760.8 million for the year ended 31 December 2018. The increase was primarily due to (i) the increase in staff cost of approximately RMB86.9 million; (ii) increase in amortisation and depreciation of approximately RMB29.4 million; (iii) increase in other tax expenses (e.g. stamp duty, property tax, etc.) of approximately RMB42.1 million; (iv) increase in equity-settled share-based payment expenses of approximately RMB47.1 million; and (v) increase in donation of approximately RMB15.0 million.

Net valuation gain on investment properties

The Group holds a portion of properties developed for rental income and/or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by an independent property valuer. The net valuation gain on investment properties increased by approximately 27.9% from RMB3,021.3 million for the year ended 31 December 2017 to approximately RMB3,865.2 million for the year ended 31 December 2018. The increase was primarily due to the increased number of shopping mall units retained for rental purposes. The return of investment properties remains stable and the Group will closely monitors the performance of its investment and adjust investment property profolio when necessary.

Share of net (losses)/profits of joint ventures

Share of net losses of joint ventures of the Group was approximately RMB2,343.0 thousand for the year ended 31 December 2018 (2017: share of net profits of joint ventures: RMB727 thousand). This is primarily due to the Group's share of net loss of AP V-Best Supply Chain (Shanghai) Ltd. which is a joint venture of a majority equity interest since the acquisition of Shenzhen Sinoagri.

Share of net losses of associates

Share of net losses of associates increased by 379.5% from approximately RMB36.1 million for the year ended 31 December 2017 to approximately RMB172.9 million for the year ended 31 December 2018. The increase is mainly due to the increase in share of losses from material associate of LightInTheBox comparing to the year ended 31 December 2017.

Finance income and costs

Finance income of the Group increased by approximately 131.5% from RMB89.0 million for the year ended 31 December 2017 to approximately RMB206.0 million for the year ended 31 December 2018. The increase was mainly attributable to interest income from the pledged bank deposits due to the full year impact of Shenzhen Sinoagri.

Finance cost of the Group increased by approximately 30.5% from RMB534.4 million for the year ended 31 December 2017 to approximately RMB697.2 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in interest expenses incurred on bank loans and loans from other financial institutions and other borrowing costs due to the full year impact of Shenzhen Sinoagri consolidation.

Income tax

Income tax increased by approximately 140.2% from RMB447.1 million for the year ended 31 December 2017 to RMB1,074.2 million for the year ended 31 December 2018. The increase was mainly due to the increase in deferred tax of RMB542.9 million as result of the increase of fair value gain from investment properties in 2018. The Group's effective tax rate increased from approximately 15.9% for the year ended 31 December 2017 to approximately 45.7% for the year ended 31 December 2018.

Profit for the year

For the year ended 31 December 2018, the Group recorded a net profit of RMB1,273.9 million, representing a decrease of approximately 45.9% over the amount of RMB2,356.5 million for the year ended 31 December 2017. For the year ended 31 December 2018, profit attributable to equity shareholders of the Company was RMB1,371.3 million (31 December 2017: 2,379.1 million).

Liquidity and capital resources

As at 31 December 2018, the Group had net current assets of approximately RMB605.8 million (31 December 2017: approximately RMB3,996.7 million) and net assets of approximately RMB19,608.8 million (31 December 2017: approximately RMB18,660.9 million). As at 31 December 2018, the total equity attributable to equity shareholders of the Company amounted to approximately RMB18,779.6 million (31 December 2017: approximately RMB17,781.2 million), comprising issued capital of approximately RMB32.4 million (31 December 2017: approximately RMB32.3 million) and reserves of approximately RMB18,747.2 million (31 December 2017: approximately RMB17,748.9 million). The Group's financial position is healthy with a stable well-managed working capital.

Cash position

The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC. The Group's cash and cash equivalents decreased by approximately 12.9% from approximately RMB1,283.6 million as at 31 December 2017 to approximately RMB1,118.6 million as at 31 December 2018. The Group's cash and cash equivalents remain stable. The Group regularly and closely monitors its funding and treasury position to meet the funding requirements of the Group.

Interest-bearing borrowings

The Group's total long-term and short-term interest-bearing borrowings increased by approximately 29.4% from approximately RMB10,994.4 million as at 31 December 2017 to approximately RMB14,225.9 million as at 31 December 2018. The increase was mainly attributable to (i) the completion of acquisition of HSH as mentioned, resulting the financial results of HSH being consolidated into the financial results of the Group; (ii) the increase of short-term loans. Majority of the loans were denominated in RMB, being the functional currency of the Group. Details of the interest rates during the year ended 31 December 2018 are set out in note 25(a) of the consolidated financial statements in this report.

Net gearing ratio

The Group's net gearing ratio increased from 39.5% as at 31 December 2017 to 52.4% as at 31 December 2018. The increase in net gearing ratio was mainly due to the increase of total short-term and long-term interest-bearing borrowings as at 31 December 2018. The net gearing ratio is calculated by dividing interest-bearing borrowings, net of cash and cash equivalents, pledged bank deposits and fixed deposits with banks with original maturity over three months, by total equity attributable to equity shareholders of the Company.

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries. Accordingly, the Board expects any future exchange rate fluctuation will not have any material effect on the Group's business. As at 31 December 2018, the Group did not use any financial instruments for hedging purpose. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charge on assets

As at 31 December 2018, the Group had pledged certain of its assets with a total book value of RMB22,832.9 million (31 December 2017: RMB17,390.1 million) and a total book value of RMB6,238.6 million (31 December 2017: RMB5,048.6 million) for the purpose of securing certain of the Group's bank loans and loans from other financial institutions and bills payables respectively.

Management Discussion and Analysis

Material acquisitions and disposals of subsidiaries

In October 2017, the Group entered into an agreement with HSH and five independent third parties in relation to subscription of 19.72% interest of HSH at an aggregate consideration of USD14.3 million and acquisition of 32.76% interest in at an aggregate consideration of USD15.2 million. HSH, a company incorporated in the Cayman Islands with limited liability, together with its subsidiaries, is principally engaged in the trading of chemical and plastic raw materials and operating the information services business. The transaction was approved by the shareholders of the Company on 5 March 2018. The aforementioned acquisition has been completed on 28 March 2018.

In April 2018, Wuhan Zall Interconnection Tech Co., Ltd. ("Zall Interconnection"), a wholly-owned subsidiary of the Company, Shenzhen Sinoagri, a subsidiary of the Company, and other investors entered into an equity transfer and capital increase agreement with Haishangxian, the existing shareholders of Haishangxian and the subsidiaries of Haishangxian in relation to the acquisition and subscription of the equity interest of Haishangxian. Pursuant to the Equity Transfer and Capital Increase Agreement, Zall Interconnection agreed to (i) subscribe for 15% Haishangxian Equity Interest from Haishangxian at a consideration of RMB90 million; and (ii) acquire 6% Haishangxian Equity Interest from the existing shareholders of Haishangxian at an aggregate consideration of RMB27 million, and Shenzhen Sinoagri agreed to acquire 1% Haishangxian Equity Interest from one of the Vendors at a consideration of RMB4.5 million. In addition, the other investors also agreed to subscribe for an aggregate of 25% Haishangxian Equity Interest at a total consideration of RMB150 million. The Subscription and the Acquisition have been completed and Haishangxian is indirectly owned as to 22% by the Company.

In August 2018, Zall Development (Wuhan) Co., Ltd., a wholly-owned subsidiary of the Company, has disposed 65% of equity interest in Zall Heng Supply Chain Management (Wuhan) Co., Ltd. ("Wuhan Zall Heng"), a company principally engaged in supply chain business of standardized non-ferrous metals, at the consideration of RMB16,250,000. Wuhan Zall Heng ceased to be a subsidiary of the Company.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries and associates during the year ended 31 December 2018 and up to the date of this annual report.

Segment reporting

Details of the segment reporting of the Group for the year ended 31 December 2018 are set out in note 3(b) of the consolidated financial statements in this report.

Contingent liabilities

In accordance with industrial practice, the Group has made arrangements with various PRC banks to provide mortgage facilities to the purchasers of its pre-sold properties. Pursuant to the terms of the guarantees, if there is a default of the mortgage payments by these purchasers, the Group will be responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

Wuhan North Hankou Guarantee Investment Co., Ltd. ("Wuhan Guarantee Investment"), the Group's wholly-owned subsidiary, is principally engaged in provision of business start-up loan guarantee and personal loan guarantee for entrepreneurs in the PRC. In accordance with the terms stipulated in the relevant agreements, Wuhan Guarantee Investment is required to make payments to reimburse the beneficiary of the guarantee for the loss incurs if a specified borrower fails to make payment when due.

As at 31 December 2018, the guarantees provided to lenders in relation to personal loans and banks in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB268.1 million (2017: RMB141.7 million) and RMB688.8 million (2017: RMB845.2 million), respectively.

CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued a number of new International Financial Reporting Standards that are first effective for the year ended 31 December 2018, certain of which are related to the Group's financial statements for the year ended 31 December 2018. For details, please refer to Note 2 to the consolidated results of the Company in this report.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 1,919 full time employees (2017: 1,714). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2018, the employees benefit expenses were RMB355.5 million (2017: RMB244.2 million). The increase is mainly due to the first completion of acquisition of Shenzhen Sinoagri in June 2017 and completion of HSH in March 2018. The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as shares and options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires.

The Group has also adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including the Directors, and full-time or part-time employees, executives or officers of the Group who had contributed to the success of the Group's operations. In relation to the Share Option Scheme, 94,367,950 share options were outstanding as at 31 December 2018.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yan Zhi (閻志), aged 46, is the co-chairman of the Board and co-chief executive officer of the Company, and is primarily responsible for the Group's overall business and investment strategies, as well as supervising its project planning, business and operation management. He is also a member of the nomination committee of the Company. Mr. Yan Zhi is the founder of the Group and has extensive industry experience in commercial property and wholesale market and other investment and enterprise management experience in various industries including finance, real estate, logistics, commerce and aviation. Mr. Yan Zhi is a non-executive director and chairman of China Infrastructure & Logistics Group Ltd., which is listed on the Main Board of the Hong Kong Stock Exchange (formerly known as CIG Yangtze Ports PLC, a company transfer its listing to the Main Board on 29 January 2018, stock code: 1719). Mr. Yan Zhi is a non-independent director and chairman of Wuhan Hanshang Group Co., Ltd. (武漢市漢商集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600774). Mr. Yan Zhi has been appointed as a director of LightInTheBox, a company listed on the New York Stock Exchange since 30 March 2016, and has been appointed as chairman of the board since 28 June 2018. Mr. Yan Zhi is the representative of the 13th National People's Congress of China. In August 2017, he was elected as the chairman of the Wuhan Federation of Industry and Commerce and the president of the Wuhan Chamber of Commerce. Mr. Yan Zhi received a master's degree in business administration for senior executives from Wuhan University (武漢大學) in February 2008 and his executive master of business administration degree at Cheung Kong Graduate School of Management (長江商學院) in September 2013, and awarded a doctoral degree in Chinese History by Wuhan University in June 2018.

Dr. Gang Yu (于剛), aged 59, Dr. Yu was appointed as an executive Director and co-chairman of the Board on 17 August 2015. Dr. Yu is currently a co-founder and executive chairman of the 111 Inc., a well-known pharmaceutical e-commerce platform listed on NASDAQ, and was a co-founder and chairman emeritus of Yihaodian, a leading e-commerce company in China. Dr. Yu has extensive experience in E-commerce and operation and logistics management. Prior to founding Yihaodian, he was Vice President, Worldwide Procurement at Dell Inc. Dr. Yu also served as Vice President, Worldwide Supply Chain Operations at Amazon.com. Prior to joining Amazon, Dr. Yu served as the Jack G. Taylor Chair Professor in Business in the Department of Management Science and Information Systems at the McCombs School of Business, the University of Texas at Austin, Director of the Center for Management of Operations and Logistics, and co-Director of the Center for Decision Making under Uncertainty. Dr. Yu is also the founder, former chairman and chief executive officer of CALEB Technologies Corporation. Dr. Yu obtained his bachelor degree in science from Wuhan University in 1982 and his master degree in science from Cornell University in 1985. Dr. Yu received his PhD from the Wharton School of Business, University of Pennsylvania in 1990. Dr. Yu has been appointed as a director of LightInTheBox, a company listed on the New York Stock Exchange since 30 March 2016. Also, Dr. Yu was appointed as independent director of Baozun Inc., which is listed on Nasdaq Stock Market since April 2018 and was appointed as director of Midea Group Co., Ltd (美的集團股份有限公司), which is listed on the Shenzhen Stock Exchange.

Mr. Wei Zhe, David (衛哲), aged 48, was appointed as an independent non-executive Director on 11 April 2016 and re-designated as executive Director and appointed as chief strategy officer of the Company since 28 June 2017. Mr. Wei has over 18 years of experience in both investment and operational management in the People's Republic of China. Prior to launching Vision Knight Capital (China) Fund I, L.P., a private equity investment fund in 2011, Mr. Wei was an executive director and chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, for about five years, where he successfully led the company through its initial public offering and listing on the Hong Kong Stock Exchange in 2007. Alibaba.com Limited was delisted in June 2012. Prior to Alibaba.com Limited, Mr. Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, the then subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr. Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr. Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Limited. Prior to that, Mr. Wei served as the head of investment banking at Orient Securities Company Limited from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited and an independent director of 500.com Limited, and was also the vice chairman of China Chain Store & Franchise Association. He was voted as one of "China's Best CEOs" by magazine in 2010. Mr. Wei is also a non-executive director of PCCW Limited, Zhong Ao Home Group Limited and JNBY Design Limited, which are listed on the Hong Kong Stock Exchange, an independent director of Leju Holdings Limited and OneSmart International Education Group Limited, which are listed on the New York Stock Exchange and non-executive director of Informa PLC, which is listed on the London Stock Exchange. Mr. Wei served as an independent director of Shanghai M&G Stationery Inc., which is listed on the Shanghai Stock Exchange from June 2014 to May 2017. He holds a bachelor's degree in international business management from Shanghai International Studies University and has completed a corporate finance program at London Business School.

Mr. Qi Zhiping (齊志平), aged 46, joined the Group at the acquisition of 50.6% equity interest in Shenzhen Sinoagri by the Group in June 2017 and was appointed as an executive Director in July 2018. Mr. Qi was then the vice chairman of Shenzhen Sinoagri and holds the position after the above acquisition. Mr. Qi is also the co-president of the Group and a member of the remuneration committee of the Company. Mr. Qi is primarily responsible for the integrated management of the online platform of the Group and the collaboration of various platforms, and the overall strategic planning and management capacity enhancement of Shenzhen Sinoagri, the planning for investment and development strategy of the Group, designing commercial models, engaging in investment projects decision and management of the Group. Mr. Qi was one of the founding members of Shenzhen Sinoagri. He has extensive experience on operation and management of retail chain, securities investment and E-commerce and experienced in corporate governance, strategic planning and global deployment. Mr. Qi obtained his bachelor degree in corporate management from Shenzhen University in 1994. He is currently studying the Executive Master of Business Administration (EMBA) programme of China Europe International Business School. Mr. Qi has been appointed as a director of LightInTheBox, a company listed on the New York Stock Exchange since 17 August 2018 and has been appointed as the vice chairman of the board since 16 November 2018.

Mr. Cui Jinfeng (崔錦鋒), aged 40, currently is the chairman of the Group's Tianjian Zall E-commerce Mall. He was appointed as an executive Director on 20 June 2011. Mr. Cui is also a member of the risk management committee of the Company. Mr. Cui joined the Group in July 2005 and is primarily responsible for the overall day-to-day management of our projects outside Hubei Province. Mr. Cui has over 14 years of experience in the wholesale market and commercial property industries. Mr. Cui received a diploma in motor vehicle manufacturing and maintenance from Jianghan University (江漢大學) in June 2000 and obtained his master's degree in business administration from The Chinese University of Hong Kong in July 2014. Mr. Cui is the vice president of Zall Holdings Ltd., a company which is owned as to 99.95% by Mr. Yan Zhi.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Ka Fai (張家輝), aged 44, was appointed as an independent non-executive Director on 20 June 2011. He is also the chairman of the audit committee and a member of the nomination committee and risk management committee. Mr. Cheung has over 20 years of experience in auditing, accounting and finance. Prior to joining the Group, Mr. Cheung worked as an auditor at Deloitte Touche Tohmatsu and served as the financial controller and company secretary of two companies listed on the GEM of the Hong Kong Stock Exchange. Mr. Cheung was the chief financial officer and company secretary of Huscoke Resources Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange from June 2008 to July 2012 and an executive director of Huscoke Resources Holdings Limited from October 2009 to July 2012. He has been serving as the chief financial officer of Bonjour Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange from August 2012 to present. Mr. Cheung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 1997 and a master's degree in business administration from the University of Bradford in January 2008.

Mr. Wu Ying (吳鷹), aged 59, was appointed as an independent non-executive Director on 29 February 2016. He is also the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Mr. Wu is currently the chairman of China Capital Group since October 2008. Prior to joining China Capital Group, Mr. Wu served as chairman and chief executive officer of UTStarcom (China) Co. Ltd for 13 years. Mr. Wu has extensive experience in telecommunication industry and venture capital investment. Mr. Wu obtained his bachelor degree in electronic engineering from the Beijing University of Technology in 1982 and obtained his master degree in electronic engineering from the New Jersey Institute of Technology in 1988 and obtained doctor honoris causa from New Jersey Institute of Technology. Mr. Wu is currently an independent non-executive Director of Zhong An Online P & C Insurance Co., Ltd. (眾安在綫財產保險股份有限公司) which is listed on the Hong Kong Stock Exchange. In addition, Mr. Wu is chairman of the board of supervisors of Huayi Brothers Media Corporation Ltd. (華誼兄弟傳媒股份有限公司) which is listed on the Shenzhen Stock Exchange, chairman of ZJBC Information Technology Co., Ltd. (中嘉博創信息技術股份有限

公司) which is listed on the Shenzhen Stock Exchange and a director of HyUnion Holding Co., Ltd. (海聯金匯科技股份有限公司) which is listed on the Shenzhen Stock Exchange. Mr. Wu was an independent director of TCL Corporation Ltd. (TCL集團股份有限公司), which is listed on the Shenzhen Stock Exchange, for the period from September 2014 to August 2017.

Mr. Zhu Zhengfu (朱征夫), aged 55, was appointed as an independent non-executive Director on 10 March 2017. He is also the chairman of the remuneration committee and risk management committee and a member of the audit committee of the Company. Mr. Zhu is currently a professional lawyer of Kunlun Law Firm (廣東東方崑崙律師事務所) and prior to that, Mr. Zhu was the deputy head of the Land Law Consultation Service Center of the Guangdong Province Land Resources Bureau (廣東省國土廳廣東地產法律諮詢服務中心) from 1995 to 1998, a partner at Guangdong Dalu Law Firm (廣東大陸律師事務所) from 1995 to 1998, the head of finance and real estate of Guangdong Economic Development Law Firm (廣州市經濟貿易律師事務所) from 1993 to 1995, and deputy department head of the economic development department of Wanbao Electronics Import and Export Co., Ltd. (萬寶電器進出口公司) from 1987 to 1993. Mr. Zhu is also an independent non-executive director of E Fund Management Co., Ltd. (易方達基金管理有限公司), an independent non-executive director of Dongjiang Environmental Co., Ltd. (東江環保股份有限公司), which is listed on the Hong Kong Stock Exchange, an independent non-executive director of Guangzhou Guangdong Daily Media Co., Ltd. (廣東廣州日報傳媒股份有限公司) and Wuhan Sante Cableways Group Co. Ltd. (武漢三特索道集團股份有限公司) ,which are listed on the Shenzhen Stock Exchange, an independent non-executive director of Poly Real Estate Group Co., Ltd. (保利房地產集團股份有限公司), which is listed on the Shanghai Stock Exchange. He is a member of the supervisory committee of CSSC Offshore & Marine Engineering (Group) Company Limited (中船海洋與防務裝備股份有限公司), which is listed on the Shanghai Stock Exchange and an independent non-executive director of O Luxe Holdings Limited, which is listed on the Hong Kong Stock Exchange for the period from May 2015 to November 2017. Mr. Zhu is also an independent non-executive director of Chong Kin Group Holdings Limited (創建集團（控股）有限公司), which is listed on the Hong Kong Stock Exchange, since 5 January 2018. He previously acted as an independent non-exeuctive director of Beijing Honggao Creative Construction Design Co., Ltd, (北京弘高創意建築設計股份有限公司), which is listed on the Shenzhen Stock Exchange, for the period from November 2014 to April 2018. Mr. Zhu is also a member of the National Committee of the Chinese People's Political Consultative Conference and the vice president of the All China Lawyers Association. He graduated from Wuhan University with a PhD in International Economics Law in 1999 and holds a professional lawyer's certificate issued by the Ministry of Justice of the People's Republic of China.

SENIOR MANAGEMENT

Mr. Yan Zhi (閻志), Mr. Qi Zhiping (齊志平), Mr. Cui Jinfeng (崔錦鋒) also serve as senior management of our group, please refer to their biographical details as set out under the section of Executive Directors.

Mr. Zhu Guo Hui (朱國輝), aged 42, is the chief financial officer of the Company. Mr. Zhu joined the Group in August 2014 and is primarily responsible for the financial management and capital market of the Company. Mr. Zhu possesses over 18 years of experience in the capital markets of Hong Kong and Mainland China. Prior to joining of the Company, Mr. Zhu has worked in various financial institutions including Credit Suisse, Value Partners Group, a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 806) and BNP Paribas in connection with transactions on initial public offering, merger and acquisition, direct investment and corporate financing. Mr. Zhu holds a bachelor's degree in economics from The Central University of Finance and Economics and a master's degree in international business administration from The University of Hong Kong.

Mr. Li Bin (李斌), aged 48, is the vice president of the Group and the president of North Hankou Group Co., Ltd.. Mr. Li is overall in charge of marketing, day-to-day operational management, property management and brand enhancement of North Hankou International Trade Centre. Mr. Li has over 19 years of experience in property management and market management. Mr. Li joined the Group in July 2007 as the general manager of Wuhan North Hankou Market Management Co., Ltd. and has held various positions within the Group. From May 1999 to June 2007, Mr. Li was manager of the property management department of Meijia Property Management (Wuhan) Co., Ltd. (美佳物業管理（深圳）有限公司武漢分公司). Mr. Li received a diploma in Chinese language and literature education from Hubei University (湖北大學) in 1995.

Ms. Min Xueqin (閔雪琴), aged 35, has over nine years of experience in the commercial property and wholesale shopping mall industries. She is the deputy general manager of North Hankou Group Co., Ltd. and the vice president of the Group. She is responsible for the Group's administrative and finance issues. Ms. Min joined the Group in 2008 and is primarily responsible for the service management and financing of North Hankou International Trade Center. Since 2018, Ms. Min has served as the vice president of Zall Holdings Limited, being a company in which Mr. Yan Zhi, an executive Director, the co-chief executive officer of the Company and co-chairman of the Board, holds 99.95% shareholding, and as a director of Wuhan Z-Bank Ltd.* (武漢眾邦銀行有限公司), being a company which is held as to 30% by Zall Holdings Limited. Ms. Min was appointed as the vice president of the 7th Hubei Young Entrepreneurs Association* (湖北省青年企業家協會) in 2017. Ms. Min obtained a diploma in electronic commerce from Zhongnan University of Economics and Law (中南財經政法大學) in 2006. She enrolled in a course for obtaining an executive master of business administration degree at Wuhan University (武漢大學) since 2013.

Mr. Yu Wei (余偉), aged 36, is the vice president of the Group and the general manager of Zallsoon Information Technology (Wuhan) Co., Ltd. (卓集送資訊科技(武漢)有限公司). Mr. Yu joined the Group in October 2015 and is primarily responsible for the Zallsoon urban delivery and long-distance trunk logistics, and the operation and day-to-day management of Commodities Intelligence Centre Pte. Ltd., CIC. He joined the Group in 2015 and a founding member of Zall Cloud Market. He is primarily responsible for the internet logistics platform team building and daily operation management. Prior to joining the Group, he has founded the first generation of local car travelling brand in 2012. Mr. Yu has engaged in sectors such as automobile, financing, travelling, internet logistics and international commodities trading for over 14 years. Mr. Yu obtained his bachelor degree in business administration from Wuhan Polytechnic University in 2006 and obtained master degree in Executive Master of Business Administration (EMBA) from China Europe International Business School in 2013.

Mr. Sun Wei (孫煒), aged 41, is a senior economist and the CEO of Shenzhen Sinoagri, a subsidiary of the Group. Mr. Sun joined the Group in June 2017 upon the acquisition of 50.6% equity interest in Shenzhen Sinoagri by the Group and is primarily responsible for the coordination of Shenzhen Sinoagri's comprehensive management, research and development of software technology and decision-making and management of investment projects. Mr. Sun Wei established Shenzhen Sinoagri in 2010 and obtained rich practical experience and innovative achievements in the fields of capital operation, e-commerce and research and development of technology. Mr. Sun obtained a bachelor's degree in material forming and control engineering from Xi'an Jiaotong University in 2000, a master's degree in management science and engineering from Xi'an Jiaotong University in 2004 and a master degree in management in Executive Master of Business Administration (EMBA) from China Europe International Business School in 2015.

Mr. Zhi Jianpeng (智建鵬), aged 47, is the founder and chairman of HSH, a subsidiary of the Group. Mr. Zhi joined the Group in March 2018 upon the acquisition of 52.48% equity interest in HSH by the Group. Mr. Zhi is primarily responsible for HSH's overall strategic planning, business model and business execution. Mr. Zhi founded the HSH in 2014 and HSH was successively invested by China Renaissance K2 Venture (險峰華興), Northern Light Venture Capital (北極光), SIG Venture Capital Investment and was acquired by Zall Smart Commerce in 2018. Mr. Zhi has worked in HC360.com and has thorough understanding and extensive experience in corporate services and B2B. Mr. Zhi obtained a degree in chemical engineering from Taiyuan University of Technology in 1996 and a master degree in Executive Master of Business Administration (EMBA) from China Europe International Business School in 2018.

Mr. Pan Fujie (潘富傑), aged 41, is the CEO of Shanghai Zall Steel E-commerce Co., Ltd., a black bulk commodities industry online platform and a subsidiary of the Group. Mr. Pan joined the Group in March 2018 upon the establishment of Zall Steel in joint ventures by the Group and Xiben New Line and is primarily responsible for setting strategic objectives of the Company, business model innovation and daily operation management. Mr. Pan has nearly 20 years of experience in operations, management and investment in the domestic and foreign trading sector of black commodities such as steel, coal and mineral products, as well as years of experience in industrial internet innovation and practice. He has strategic planning, management and organizational leadership capabilities for large enterprises. Mr. Pan obtained a bachelor's degree in material management and engineering from Northern Jiaotong University (北方交通大學) in 1998, a MBA degree from Tsinghua University School of Economics and Management in 2009, and a master's degree in finance from Peking University School of Economics in 2017.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 22 September 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 14 to the consolidated financial statements. Save for the business transformation provided in the section headed "Management Discussion and Analysis" of this annual report, there were no significant changes in the nature of the Group's principal activities during the year under review.

CHANGE OF COMPANY NAME

The change of English name of the Company from "Zall Group Ltd." to "Zall Smart Commerce Group Ltd. ", and adoption of "卓爾智聯集團有限公司" to replace "卓爾集團股份有限公司" as Chinese name of the Company (the "Change of Company Name") was approved by the shareholders of the Company at the annual general meeting held on 30 May 2018. The Certificate of Incorporation on Change of Name of the Company was issued by the Registrar of Companies in Cayman Islands on 30 May, 2018 and the Certificate of Registration of Alternation of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 20 June 2018. The stock short names of the Company for trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were changed from "Zall Group" to "Zall Smartcom" in English and from "卓爾集團" to "卓爾智聯" in Chinese on 3 July 2018. The stock code of the Company remains unchanged as "2098".

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2018 are provided in the section headed "Chairman's Statement" on pages 5 to 9 and the section headed "Management Discussion and Analysis" on pages 10 to 21 of this annual report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of the report of the Directors on page 32 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2018 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 10 to 21 of this annual report.

In addition, details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations which have a significant impact on the Company will be provided in the Environmental, Social and Governance Report which will be published on the websites of the Company and the Stock Exchange within three months after the publication of this annual report.

RESULTS AND DISTRIBUTION

The profit of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 63.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (corresponding period in 2017: HK2.58 cents per share).

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out on pages 63 to 200.

RESERVES

Movements in the reserves of the Group during the year ended 31 December 2018 is set out on pages 67 to 68.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB3,882 million (2017: RMB4,037million). The Board does not propose the payment of dividend for the year ended 31 December 2018. (2017: HK$300 million).

GROUP FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last five financial years are summarized on page 204 of this annual report.

SHARE CAPITAL

Changes in share capital of the Company for the year ended 31 December 2018 and as at that date are set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company (the "Articles") or the laws of Cayman Islands, which would oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

SHARE OPTION SCHEME

Pursuant to the sole shareholder's resolutions of the Company on 20 June 2011, the Company has adopted a Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The following is a summary of the principal terms of the Share Option Scheme:

1. *Purpose of the Share Option Scheme*

The Share Option Scheme is established to recognize and acknowledge the contributions of the Eligible Participants (as defined in paragraph 2 below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants (as defined below) an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. *Participants of the Share Option Scheme*

The Board may, at its discretion, offer to grant an option to the following persons (collectively, the "Eligible Participants") to subscribe for such number of new shares as the Board may determine:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries; and

(iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

3. *Total number of shares available for issue under the Share Option Scheme*

The maximum number of shares which may be issued upon exercise of options which may be granted under the Share Option Scheme shall not in aggregate exceed 1,050,000,000 shares, after the Share Subdivision effective from 19 October 2015, representing approximately 8.99% of the issued shares of the Company as at the date of this report. As at the date of this report, the number of shares available for issue under the Share Option Scheme (excluding those under share options granted but not exercised) amounted to 954,332,050 shares, representing approximately 8.2% of the issued shares of the Company.

4. *Maximum entitlement of each participant under the Share Option Scheme*

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"); and

(ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting.

5. *The period within which the shares must be exercised under the Share Option Scheme*

An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Share Option Scheme.

6. *The minimum period for which an option must be held before it can be exercised*

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.

7. *The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid*

Options granted must be taken up within 21 days of the date of offer, upon payment of HK$1 per grant.

8. *The basis of determining the exercise price*

The exercise price shall be determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of options, which must be a trading day, (ii) the average closing price of the ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of options; and (iii) the nominal value of an ordinary share.

9. *The remaining life of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years, commencing on 20 June 2011.

10. Movement of Share Options during the year under review

Particulars of share options under the Share Option Scheme (the "Share Option") outstanding at the beginning and at the end of the financial year ended 31 December 2018 and Share Options granted, exercised, cancelled or lapsed during the financial year ended 31 December 2018 are as follows:

Category of participant	Date of Grant	Exercise price per share	Vesting date and exercise period	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2018	Price per Share immediately before the date of grant	Price per Share on exercise date
Directors: Mr. Qi Zhiping	22 December 2017	HK$8.48	From the date when the exercise conditions are met to 21 December 2027 (Note 1)	2,283,398	-Nil-	-Nil-	-Nil-	-Nil-	2,283,398	HK$8.46	N/A (Note 4)
	4 September 2018	HK$6.66	(Note 2)	-Nil-	3,000,000 (Note 3)	-Nil-	-Nil-	-Nil-	3,000,000	HK$6.52	N/A (Note 4)
Spouse of Mr. Qi Ziping	22 December 2017	HK$8.48	From the date when the exercise conditions are met to 21 December 2027 (Note 1)	41,101,154	-Nil-	-Nil-	-Nil-	-Nil-	41,101,154	HK$8.46	N/A (Note 4)
Mr. Cui Jinfeng	4 September 2018	HK$6.66	(Note 2)	-Nil-	2,000,000 (Note 3)	-Nil-	-Nil-	-Nil-	2,000,000	HK$6.52	N/A (Note 4)
Employees of the Group	22 December 2017	HK$8.48	From the date when the exercise conditions are met to 21 December 2027 (Note 1)	2,283,398	-Nil-	-Nil-	-Nil-	-Nil-	2,283,398	HK$8.46	N/A (Note 4)
	4 September 2018	HK$6.66	(Note 2)	-Nil-	45,000,000 (Note 3)	-Nil-	-Nil-	(1,300,000)	43,700,000	HK$6.52	N/A (Note 4)
Total				45,667,950	50,000,000			(1,300,000)	94,367,950		

Notes:

1. Such Share Options shall be exercisable upon fulfillment of certain financial performance targets set out in the respective letters of grant. For further details of the financial performance targets, please refer to the paragraph headed "Management Shares and Management Option" in the circular of the Company dated 15 February 2017.

2. Subject to fulfillment of certain financial performance targets set out in the respective letters of grant, these Share Options shall be exercisable in the following manner:

   (i) the first 30% of the Share Options shall be exercisable by the grantee commencing from the first trading date after the 12-month period from the date of grant and ending on the last trading date of the 24-month period from the date of grant;

(ii) the second 30% of the Share Options shall be exercisable by the grantee commencing from the first trading date after the 24-month period from the date of grant and ending on the last trading date of the 36-month period from the date of grant; and

(iii) the remaining 40% of the Share Options shall be exercisable by the Grantee commencing from the first trading date after the 36-month period from the date of grant and ending on the last trading date of 48-month period from the date of grant.

3. The value of the Share Options granted during the financial year ended 31 December 2018 and the accounting policy adopted for the Share Options are set out in note 27 to the consolidated financial statements of the Company in this annual report.

4. No Share Options had been exercised during the financial year ended 31 December 2018.

Save as disclosed above, there were no outstanding Share Options at the beginning and/or at the end of the year ended 31 December 2018 and there were no other Share Options granted during the financial year ended 31 December 2018.

PERFORMANCE GUARANTEE IN RESPECT OF THE ACQUISITION OF SHENZHEN SINOAGRI

Reference is made to the circular of the Company dated 15 February 2017 (the "Shenzhen Sinoagri Acquisition Circular") in relation to the acquisition of Shenzhen Sinoagri. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Shenzhen Sinoagri Acquisition Circular.

Pursuant to the Acquisition Agreement, the Performance Guarantee, together with the Lock-Up Undertaking as disclosed in the Shenzhen Sinoagri Acquisition Circular, provide the Company with a mechanism to adjust the Consideration following the completion of the Acquisition by reference to the actual performance of the Shenzhen Sinoagri for the next three or five (as the case may be) financial years from 2017 to 2021.

For the year ended 31 December 2018, the actual revenue and the actual net profit of Shenzhen Sinoagri amounted to approximately RMB35.0 billion and approximately RMB53.4 million respectively, which have not reached the Target Revenue and Target Net Profit for the financial year ended 31 December 2018 of RMB37.5 billion and RMB132 million as stated in the Acquisition Agreement respectively, and therefore the Performance Guarantee for the financial year 2018 has not been fulfilled and the Consideration will be adjusted according to the Acquisition Agreement and the Performance Guarantee set out in the Shenzhen Sinoagri Acquisition Circular.

MAJOR SUPPLIERS AND CUSTOMERS

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 23.9% (2017: 25.9%) of the Group's total sales and the sales attributable to the Group's largest customer were approximately 8.9% (2017: 9.8%) of the Group's total sales.

The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 24.2% (2017: 28.7%) of the Group's total purchases; and the purchases attributable to the Group's largest supplier were approximately 9.1% (2017: 9.0%) of the Group's total purchases. Purchases of the Group include purchases which are required on a regular basis to enable the Group to continue to supply its customers. Accordingly, purchases include, but not limited to, land purchased from the government and the cost of construction materials, and goods purchased from suppliers.

To the best of the knowledge of the Directors, none of the Directors, their close associates or any shareholder which owns more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers and suppliers of the Group.

Report of the Directors

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable assets. The Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group's business is built on a customer-oriented culture. The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. To maintain its market competitiveness within the industry, the Group aims at delivering constantly high standards and high quality products to its customers. During the year under review, there was no material and significant dispute between the Group and its suppliers and/or customers.

INTEREST-BEARING BORROWINGS

Particulars of interest-bearing borrowings of the Group as at 31 December 2018 are set out in note 25 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year under review amounted to approximately RMB15 million (2017: NIL).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the consolidated financial statements.

INVESTMENT PROPERTIES, PROPERTIES UNDER DEVELOPMENT AND COMPLETED PROPERTIES HELD FOR SALE

Details of the movements in the investment properties of the Group during the year are set out in note 10 to the consolidated financial statements. Particulars of investment properties, properties under development and completed properties held for sale are shown under the section of "Major Properties Information" on pages 201 to 203.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2018, save as disclosed below, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

ISSUE OF SHARES

As disclosed in the Shenzhen Sinoagri Acquisition Circular, the Company shall issue (i) 10,746,000 shares (being the Incentive Shares) to Mr. Wei Zhe, David ("Mr Wei"), an executive Director and the chief strategy officer of the Company pursuant to the service agreement dated 14 November 2016 between Mr. Wei and the Company; and (ii) 42,981,000 shares (being the VKC Consultancy Service Consideration Shares) to Vision Knight Capital Management Company Limited ("VKC") pursuant to the consultancy agreement dated 14 November 2016 between VKC and the Company, upon satisfaction by Shenzhen Sinoagri and its subsidiaries ("Project Group") of certain target performance for any of three financial years from 2017 to 2019.

On 8 May 2018, the Company has allotted and issued 10,746,000 shares and 42,981,000 shares of the Company to Mr. Wei and VKC respectively following satisfaction of the target performance of the Project Group for the financial year ended 31 December 2017.

DIRECTORS

The Directors who held office in the Company during the year and up to the date of this report are:

Executive Directors:
Mr. Yan Zhi *(Co-Chairman and Co-Chief Executive Officer)*
(re-designated as Co-Chief Executive Officer on 6 July 2018)
Dr. Gang Yu *(Co-Chairman)*
Mr. Wei Zhe, David
Mr. Qi Zhiping *(Co-Chief Executive Officer) (appointed on 6 July 2018)*
Mr. Cui Jinfeng
Mr. Peng Chi *(resigned on 6 July 2018)*

Independent Non-Executive Directors:
Mr. Cheung Ka Fai
Mr. Wu Ying
Mr. Zhu Zhengfu

In accordance with article 84(1) of the Articles, at each annual general meeting, one-third of the Directors shall retire from office by rotation, accordingly each of Mr. Cui Jinfeng, Mr. Cheung Ka Fai and Mr. Zhu Zhengfu, will retire from the office of Director by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on 30 May 2019 (the "AGM").

In accordance with article 83(3) of the Articles, Mr. Qi Zhiping, who was appointed by the Board during the year, shall retire from office at the AGM and, being eligible, offer himself for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 22 to 25 of this annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CHANGE OF DIRECTORS' INFORMATION

Upon specify enquiry by the Company and following confirmations from the Directors, save as otherwise set out in this report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since 1 January 2018. The Directors' updated information is set out below:

1. Mr. Yan Zhi was appointed as a member of National People's Congress of the PRC in January 2018 and awarded a doctoral degree in Chinese History by Wuhan University in June 2018. Mr. Yan Zhi was appointed as the chairman of the board of LightInTheBox, a company listed on the New York Stock Exchange, with effect from 28 June 2018. Mr. Yan Zhi was appointed as a non-independent director and chairman of Wuhan Hanshang Group Co., Ltd. (武漢市漢商集團股份有限公司), a company listed on the Shanghai Stock Exchange in March 2019.

2. Dr. Gang Yu was appointed as an independent director of Baozun Inc., which is listed on Nasdaq Stock Market in April 2018. Dr. Gang Yu was appointed as a director of Midea Group Co., Ltd (美的集團股份有限公司), which is listed on Shenzhen Stock Exchange.

3. Mr. Wei Zhe, David was appointed as an independent director of OneSmart International Education Group Limited, which is listed on New York Stock Exchange, in March 2018. Mr. Wei Zhe, David was appointed as a non-executive director of Informa PLC, which is listed on the London Stock Exchange, in June 2018. In May 2018, Mr. Wei Zhe, David and a company controlled by Mr. Wei were granted 10,746,000 shares and 42,981,000 shares, respectively, by the Company upon satisfaction by Shenzhen Sinoagri, a subsidiary of the Company, of the target performance for the financial year ended 31 December 2017.

   For details, please refer to the announcement of the Company dated 8 May 2018.

4. Mr. Qi Zhiping was appointed as an executive Director, the co-chief executive officer of the Company and a member of the remuneration committee of the Board with effect on 6 July 2018. Mr. Qi Zhiping was appointed as the chief executive officer and a director of LightInTheBox, a company listed on the New York Stock Exchange, with effect from 26 July 2018 and 17 August 2018, respectively. He ceased to act as the chief executive officer and was appointed as the vice chairman of the board of LightInTheBox, with effect from 16 November 2018.

5. Mr. Zhu Zhengfu resigned as an independent non-executive director of Beijing Honggao Creative. Construction Design Co., Ltd (北京弘高創意建築設計股份有限公司), a company listed on the Shenzhen Stock Exchange, with effect from 25 April 2018.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Articles. In addition, the Company has arranged appropriate directors' and officers' liability insurance cover for the Directors and officers of the Group.

DIRECTORS' REMUNERATION

The remuneration committee of the Company (the "Remuneration Committee") considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors, taking into consideration of the recent trend of labor market, the overall remuneration policy and structure of the Directors and senior management. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Details of Directors' remuneration are set out in note 7 to the consolidated financial statements.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions and material related party transactions are disclosed in this report and in note 33 to the consolidated financial statements.

Save for the above, no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director or an entity connected with a Director has a material interest in, whether directly or indirectly, or in relation to the provision of service to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries between the Company, or one of its subsidiary companies, and a controlling Shareholder or any of its subsidiaries, subsisted during or at the end of the financial year under review.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors held any interests in any competing business against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2018.

EQUITY-LINKED AGREEMENT

Save for the Share Option Scheme adopted by the Company on 20 June 2011, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme" in this report, at no time during the year under review was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or chief executive of the Company or their spouses or minor children had any right to subscribe for equity and debt securities of the Company or any of its associated corporations or had exercised any such right during the year under review.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests or short positions of each Director and chief executive in the shares, underlying shares or debentures of the Company or its any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are being taken or deemed to have taken under such provision of the SFO); or were required pursuant to Section 352 of the SFO to be recorded in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of the Company (the "Model Code") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Interests in shares of the Company

Name of director	Nature of interest	Number of ordinary shares/ underlying shares in the Company as at 31 December 2018	Approximate percentage of Shareholding as at 31 December 2018 (5)
Yan Zhi	Interest of a controlled corporation	6,609,022,268 (L)(1)	56.58%
	Beneficial owner	56,613,000 (L)	0.48%
Gang Yu	Beneficial owner	61,090,840 (L)	0.52%
	Interest of spouse	11,800,000 (L)	0.10%
Cui Jinfeng	Beneficial owner	3,312,500 (L)(3)	0.03%
Wei Zhe, David	Interest of a controlled corporation (2)	132,144,000 (L)	1.13%
		132,144,000 (S)	1.13%
	Beneficial owner	10,746,000 (L)	0.09%
		10,746,000 (S)	0.09%
Qi Zhiping	Beneficial owner	5,686,351 (L)(4)	0.05%
	Interest of spouse	48,354,298 (L)(4)	0.41%

(L) represents long position; (S) represents short position.

Report of the Directors

Notes:

(1) The 6,609,022,268 shares are held by Zall Development Investment Company Limited ("Zall Development Investment"), a company which is wholly owned by Mr. Yan Zhi.

(2) The long and short positions in 89,163,000 shares are held by EJC Group Limited, a company which is indirectly owned as to 60% by Vision Knight Capital (China) Fund I, L.P., which is in turn indirectly owned as to 43.6% by Mr. Wei, and the long and short positions in 42,981,000 shares are held by Vision Knight Capital Management Limited, a company which is directly owned as to 99% by Mr. Wei.

(3) Out of these shares, there were 2,000,000 underlying shares held by Mr. Cui Jinfeng under unlisted physically settled derivative.

(4) Out of these shares, there were 5,283,398 underlying shares and 41,101,154 underlying shares held by Mr. Qi Zhiping and his spouse respectively under unlisted physically settled derivatives.

(5) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2018 (11,681,731,800 ordinary shares).

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company and their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER(S)' AND OTHER INTERESTS

So far as is known to any Director, as at 31 December 2018, the following persons (other than a Director or chief executive of the Company) had or deemed or taken to have an interest or short position in the shares or underlying shares of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number of ordinary shares/underlying shares held as at 31 December 2018	Percentage of shareholding as at 31 December 2018[3]
Substantial shareholder			
Zall Development Investment	Beneficial owner	6,609,022,268 [1]	56.58%
Other persons			
Ji Changqun	Interest in a controlled corporation	949,224,000 [2]	8.13%
Magnolia Wealth International Limited	Interest in a controlled corporation	949,224,000 [2]	8.13%
Fullshare Holdings Limited	Interest in a controlled corporation	949,224,000 [2]	8.13%
Rich Unicon Holdings Limited	Beneficial owner	949,224,000 [2]	8.13%

Notes:

(1) Zall Development Investment is a company wholly-owned by Mr. Yan Zhi.

(2) The 949,244,000 shares are held by Rich Unicorn Holdings Limited, a company which is wholly owned by Fullshare Holdings Limited, which in turn is owned as to approximately 46.58% by Magnolia Wealth International Limited, which in turn is wholly owned by Mr.Ji Changqun.

(3) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2018 (11,681,731,800 ordinary shares).

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any person, other than a Director or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

The Stock Exchange has exercised its discretion under Rule 8.08(1)(d) of the Listing Rules to accept a lower public float percentage of the Company of 15% and the Company, based on the information that is publicly available to the Company and within the knowledge of the Directors, has maintained sufficient public float of the Company's securities as at the date of this report.

RETIREMENT BENEFIT PLANS

The Group participates in a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 19%-21% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

For the year ended 31 December 2018, the Group's total contributions to the retirement schemes charged in the consolidated statement of profit or loss amounted to approximately RMB24.7 million (2017: approximately RMB15.6 million).

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2018, the Group conducted the following continuing connected transactions:

(a) Lease agreement with Wuhan Zall Yuexi Hotel Management Co., Ltd.* (武漢卓爾悅璽酒店管理有限公司)("Wuhan Zall Yuexi") dated 23 December 2016

On 23 December 2016, Zall Investment Group Co., Ltd.* (卓爾投資集團有限公司) ("Zall Investment Group"), a wholly-owned subsidiary of the Company, entered into a lease agreement (the "First Lease Agreement") with Wuhan Zall Yuexi, pursuant to which Zall Investment Group agreed to lease certain premises located at No. 1 Enterprise Park, 1 Julong Boulevard, Panlong Economic Development District, Huangpi District, Wuhan, PRC* (武漢市黃陂區盤龍城經濟開發區巨龍大道特一號 No. 1 企業社區) with an area of 9,182.02 square meters to Wuhan Zall Yuexi at a monthly rent of RMB275,461 for a term of three years commencing from 1 January 2017 to 31 December 2019.

The rental fee received from Wuhan Zall Yuexi under the First Lease Agreement was determined on an arm's length basis and with reference to the prevailing market rent at the time of the First Lease Agreement. The terms of the First Lease Agreement, including the rents received from Wuhan Zall Yuexi under the First Lease Agreement, were entered into on an arm's length negotiations with reference to the prevailing market rent for comparable premises in the vicinity.

Wuhan Zall Yuexi is wholly owned by Wuhan Zall Culture & Tourism Group Ltd.*(武漢卓爾文旅集團有限公司) ("Wuhan Zall Culture & Tourism"), which is held as to 99.95% by Mr. Yan Zhi, the controlling Shareholder, the Co-Chairman and an executive Director of the Company. Accordingly, Wuhan Zall Yuexi is an associate of Mr. Yan Zhi and is therefore a connected person of the Company under the Listing Rules, and the entering into of the First Lease Agreement constitutes continuing connected transaction of the Company, in respect of which an announcement dated 23 December 2016 was published by the Company in compliance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, the aggregate amount of the transactions under the First Lease Agreement amounted to approximately RMB3.3 million (2017: RMB3.3 million), which is within the annual cap of RMB3.3million.

(b) Lease agreement with Wuhan Z-Bank Ltd.* (武漢眾邦銀行股份有限公司) ("Wuhan Z-Bank") dated 18 May 2017

On 18 May 2017, Wuhan North Hankou Trade Market Investment Co., Ltd.* (武漢漢口北商貿市場投資有限公司) ("North Hankou"), a wholly-owned subsidiary of the Company, entered into a lease agreement (the "Second Lease Agreement") with Wuhan Z-Bank, pursuant to which North Hankou agreed to lease certain properties located at D2 North Hankou International Trade Centre, No. 88 North Hankou Road, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC*(湖北省武漢市黃陂區盤龍城經濟開發區漢口北大道88號漢口北國際商品交易中心D2區) with an aggregate area of 4,897.5 square meters to Wuhan Z-Bank for a term of three years commencing from 18 May 2017 to 17 May 2020 at a monthly rent of RMB1,469,250 and monthly property management fee of RMB24,487.50. In 2018, North Hankou revised the lease agreement with Wuhan Z-Bank, of which the leased properties decreased to 3,360 square meters and the total rental fee for the year ended 31 December 2018 revised to RMB3,478,000.

The rental fee received from Wuhan Z-Bank under the Second Lease Agreement was determined on an arm's length basis and with reference to the prevailing market rent at the time of the Second Lease Agreement. The terms of the Second Lease Agreement, including the rents received from Wuhan Z-Bank under the Second Lease Agreement, were entered into on an arm's length negotiations with reference to the prevailing market rent for comparable premises in the vicinity.

Wuhan Z-Bank is directly owned as to 30% by Zall Holdings Ltd.* (卓爾控股有限公司), a company which is owned as to 99.95% by Mr. Yan Zhi. Accordingly, Wuhan Z-Bank is an associate of Mr. Yan Zhi and is therefore a connected person of the Company under the Listing Rules, and the entering into of the Second Lease Agreement constitutes continuing connected transaction of the Company, in respect of which an announcement dated 18 May 2017 was published by the Company in compliance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, the aggregate amount received by the Group under the Second Lease Agreement amounted to approximately RMB3.5 million (2017: approximately RMB11.2 million), which is within the annual Cap of RMB17.9 million.

(c) Lease Agreement with Wuhan Zall Yueting Hotel Co., Ltd.* (武漢卓爾悅廷酒店有限公司) ("Wuhan Zall Yueting") dated 3 November 2017

On 3 November 2017, North Hankou entered into a lease agreement (the "Third Lease Agreement") with Wuhan Zall Yueting, pursuant to which North Hankou agreed to lease certain properties located at B-1 to 17th Floor, D2 of Foreign Trading Building, No.88 North Hankou Road, Panlongcheng, Huangpi District, Wuhan, Hubei Province, PRC* (中國湖北省武漢市黃坡區盤龍城漢口北大道88號外貿大廈D2棟負一層至十七層) with an aggregate area of 23,347.2 square meters to Wuhan Zall Yueting for a term of three years commencing from 3 November 2017 to 2 November 2020 at the following monthly rents and monthly property management fees:

- monthly rental of RMB2,334,720 and monthly property management fee of RMB116,736 from 3 November 2017 to 2 November 2018;
- monthly rental of RMB2,568,192 and monthly property management fee of RMB116,736 from 3 November 2018 to 2 November 2019; and
- monthly rental of RMB2,801,664 and monthly property management fee of RMB116,736 from 3 November 2019 to 2 November 2020.

The rental fee received from Wuhan Zall Yueting under the Third Lease Agreement was determined on an arm's length basis and with reference to the prevailing market rent at the time of the Third Lease Agreement. The terms of the Third Lease Agreement, including the rents received from Wuhan Zall Yueting under the Third Lease Agreement, were entered into on an arm's length negotiations with reference to the prevailing market rent for comparable premises in the vicinity.

Wuhan Zall Yueting is wholly owned by Wuhan Zall Culture & Tourism, which is held as to 99.95% by Mr. Yan Zhi. Accordingly, Wuhan Zall Yueting is an associate of Mr. Yan Zhi and is therefore a connected person of the Company under the Listing Rules, and the entering into of the Third Lease Agreement constitutes continuing connected transaction of the Company, in respect of which an announcement dated 3 November 2017 was published by the Company in compliance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, the aggregate amount received by the Group under the Third Lease Agreement, amounted to approximately RMB29.9 million (2017: approximately RMB4.7 million), which is within the annual cap of approximately RMB29.9 million.

(d) Strategic Framework Agreement with Wuhan Z-Bank dated 9 July 2018

On 9 July 2018, the Company entered into a strategic framework agreement (the "Framework Agreement") with Wuhan Z-Bank in relation to (a) provision of bank deposits services by Wuhan Z-Bank to the Group; (b) provision of fund settlement, payment and other financial services by Wuhan Z-Bank to the Group; and (c) the Group referring customers to Wuhan Z-Bank for loan and credit facilities services.

The Framework Agreement was entered into for a term from 9 July 2018 to 31 December 2020 and the pricing arrangements for the above financial services are as follows:

(1) the interest rate for deposits placed by the Group with Z-Bank shall not be lower than the rate prescribed by The People's Bank of China ("PBOC") for the same type of deposit with similar terms and not lower than the interest rate for deposits of a similar nature provided to the Group by other independent commercial banks in the PRC;

(2) the services fees charged by Z-Bank for the provision of the fund settlement, payment and other financial services are determined according to the fee rates fixed by the PBOC or the China Banking Regulatory Commission and if such fixed fee rates are not available, the services fees are negotiated on arm's length basis taking into account the market conditions and by reference to the fee rates charged by normal commercial banks in the PRC for comparable services; and

(3) the Group will not receive any fee from Z-Bank resulting from or in relation to members of the Group referring customers to Z-Bank.

Wuhan Z-Bank is directly owned as to 30% by Zall Holdings Ltd.* (卓爾控股有限公司), a company which is owned as to 99.95% by Mr. Yan Zhi. Accordingly, Wuhan Z-Bank is a connected person of the Company under the Listing Rules, and the entering into of the Strategic Framework Agreement constitutes continuing connected transaction of the Company, in respect of which an announcement dated 9 July 2018 was published by the Company in compliance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, the maximum daily balance (including interests accrued thereon) of deposits placed by the Group with Z-Bank amounted to RMB407 million which is within the daily deposit cap of RMB1,000 million and there is no service fees payable by the Group to Z-Bank under the Framework Agreement which is within the annual cap of HK$3,000,000.

* The English translation of the Chinese names of the companies established in PRC is for illustration purpose only.

Confirmation by the independent non-executive Directors

The independent non-executive Directors have reviewed and confirmed that for the year ended 31 December 2018, the continuing connected transactions as set out above have been entered into by the Group:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation by the auditor of the Company

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged the Auditor of the Company to report on the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken during the year are set out in note 33 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connection transactions (as the case may be) (other than those described in the section above headed "Continuing Connected Transactions"), these transactions are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS TO ASCERTAIN SHAREHOLDERS' ENTITLEMENT TO ATTEND AND VOTE AT THE AGM

In order to determine who are eligible to attend and vote at the AGM, the Company's register of members will be closed from Friday, 24 May 2019 to Thursday, 30 May 2019 (both days inclusive), during which no transfer of shares of the Company will be effected. In order to be qualified to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 23 May 2019.

AUDIT COMMITTEE

The Group's annual report for the year ended 31 December 2018 has been reviewed by the audit committee of the Company ("Audit Committee"). Information on the work of Audit Committee and its composition are set out the Corporate Governance Report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2018 were audited by KPMG.

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

By order of the Board
Yan Zhi
Co-chairman

Hong Kong, 29 March 2019

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders of the Company.

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its corporate governance code of practices upon the listing of its shares on the Stock Exchange. In the opinion of the Board, save for the deviation to code provision A.2.1 below, the Company had complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2018.

Code Provision A.2.1

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

Before July 2018, Mr. Yan Zhi acted as the co-chairman of the Board and the chief executive officer of the Company. The Board believes that vesting the two roles in Mr. Yan Zhi provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. In July 2018, the Board has appointed Mr. Qi Zhiping as co-chief executive officer of the Company to share the responsibilities and obligations of the chief executive officer with Mr. Yan Zhi. Accordingly, Mr. Yan Zhi has been redesignated as the co-chief executive officer of the Company. The Company has therefore complied with the code provision A.2.1 since 6 July 2018. The Group will continue to review the structure from time to time and make necessary arrangement if appropriate.

THE BOARD

As at the date of this report, the Board consists of eight Directors, five of whom are executive Directors and three of whom are independent non-executive Directors. The composition of the Board is set out in the section headed "Corporate Information" on pages 2 and 3 of this annual report.

The functions and duties conferred on the Board include convening shareholders' meetings and reporting on the work of the Board to the shareholders at shareholders' meetings as may be required by applicable laws, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions, setting management targets and supervising the performance of management as well as exercising other powers, functions and duties as conferred on it by the Articles and applicable laws.

The senior management is delegated with the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company. The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company.

All Directors have separate and independent access to the Company's senior management to fulfill their duties and, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense. All Directors also have access to the company secretary who is responsible for ensuring that the Board procedures, and all applicable rules and regulations, are followed. An agenda and accompanying Board/committee papers are distributed to the Directors/Board committee members with reasonable notice in advance of the meetings. Minutes of Board meetings and meetings of Board committees, which record in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the company secretary and are open for inspection by Directors.

The Company has arranged appropriate and sufficient insurance coverage on Directors' liabilities in respect of potential legal actions taken against Directors arising out of corporate activities.

According to the Articles, any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting or the next following annual general meeting of the Company (as the case may be) and shall be eligible for re-election at that meeting. In addition, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

The biographical details of the current Board members are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 22 to 25 of this annual report. Save as otherwise disclosed, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Independent non-executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years, subject to retirement by rotation in accordance with the Articles.

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

BOARD COMMITTEES

As an integral part of sound corporate governance practices, the Board has established the following committees to oversee the particular aspects of the Group's affairs. Each of these committees comprises Directors who are being invited to join as members. The terms of reference of all the committees as stated below are posted on the Company's website and the Stock Exchange's website.

AUDIT COMMITTEE

The Audit Committee has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting and internal control principles of the Company, and to assist the Board to fulfill its responsibilities over audit and to monitor and perform the corporate governance duties as set out in the CG Code.

The Audit Committee consists of three independent non-executive Directors: Mr. Cheung Ka Fai, Mr. Wu Ying and Mr. Zhu Zhengfu. Mr. Cheung Ka Fai serves as the chairman of the Audit Committee.

During the year ended 31 December 2018, the Audit Committee met two times and it has reviewed the Group's consolidated financial statements for the six months ended 30 June 2018 and for the year ended 31 December 2017 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters.

CORPORATE GOVERNANCE FUNCTIONS

During the year under review, the Audit Committee is also responsible for determining the policy for the corporate governance of the Company performing the corporate governance duties as below:

- to develop and review the Group's policies and practices on corporate governance and make recommendations
- to review and monitor the training and continuous professional development of the directors and senior management
- to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable)
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Group
- to review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance

REMUNERATION COMMITTEE

The Remuneration Committee was established on 20 June 2011 with written terms of reference in compliance with the CG Code. The principal responsibilities of the Remuneration Committee are to formulate and recommend remuneration policy to the Board, to determine, with delegated responsibility, the remuneration of executive Directors and members of senior management, to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time and to make recommendations to the Board on the remuneration of non-executive Directors and other remuneration related issues. The Board expects the Remuneration Committee to exercise independent judgment and ensures that other Directors do not participate in the determination of their own remuneration.

The Remuneration Committee consists of two independent non-executive Directors, Mr. Zhu Zhengfu and Mr. Wu Ying, and one executive Director, Mr. Qi Zhiping (appointed as a member of the Remuneration Committee on 6 July 2018). Mr. Zhu Zhengfu serves as the chairman of the Remuneration Committee. Mr. Peng Chi resigned as a member of the Remuneration Committee with effect from on 6 July 2018.

The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short-term bonuses and long-term rewards such as options, so as to attract and retain top quality staff. The Remuneration Committee reviews such packages annually, or when the occasion requires.

During the year, the Remuneration Committee met once to review the remuneration policy of the Company, including the structure and level of remuneration payable to the Directors and senior management of the Company.

In addition, the Remuneration Committee has resolved by written resolutions in lieu of meeting to recommend to the Board for approval the service contract and the terms of remuneration for the appointment of Mr. Qi Zhiping as executive Director and Co-chief Executive Officer of the Company, and the grant of share options to two executive Directors and other employees or eligible participants under the Company's Share Option Scheme.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 20 June 2011 with its written terms of reference in compliance with the CG code. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of independent non-executive Directors. When considering the suitability of a candidate for directorship, the Nomination Committee also considered the "Board Diversity Policy" adopted by the Board on 30 August 2013 and the requirements under the Listing Rules. In considering the diversity of the Board, aspects including, but not limited to, gender, age, cultural and educational background, professional experience, skills and knowledge were considered. Based on the above criteria, the Nomination Committee has reviewed the composition of the Board and confirmed that the existing Board was appropriately structured and no change was required.

The Nomination Committee consists of two independent non-executive Directors: Mr. Wu Ying, and Mr. Cheung Ka Fai and one executive Director, Mr. Yan Zhi. Mr. Wu Ying serves as the chairman of the Nomination Committee.

During the year, the Nomination Committee met once to review the structure, size and composition of the Board and considered that the current Board consists of a diverse mix of members appropriate to the requirements of the businesses of the Company. It has also considered and recommended to the Board for approval the list of retiring Directors for re-election at the 2018 annual general meeting of the Company.

In addition, the Nomination Committee has resolved by written resolutions in lieu of meeting to recommend to the Board for approval the appointment of Mr. Qi Zhiping as executive Director, co-chief executive and member of the Remuneration Committee of the Company after consideration of a range of diversity perspectives.

Board Diversity

The Company adopted a board diversity policy ("Board Diversity Policy") which sets out the approach to achieve and maintain diversity of the Board. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors including but not limited to, gender, age, culture, educational background, professional experience, skills, knowledge, length of service and other qualities. The ultimate selection decision will be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

Nomination Policy

The Company adopted a nomination policy ("Nomination Policy") which sets out, inter alia, the criteria, process and procedures in nominating and selecting candidates to be appointed or re-appointed as Directors. In the nomination and selection of new Directors, the Nomination Committee assesses the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the Nomination Committee and/or the Board will nominate potential candidates for appointment as new Directors. In the nomination process, each Director candidate shall be considered upon evaluation against the selection criteria. External agencies and/or advisors may also be appointed to assist in the search process where necessary. New Directors are appointed by the Board, after the Nomination Committee has evaluated and approved their nominations.

The Nomination Policy shall also be governed by other additional and relevant requirements under the Articles and the Listing Rules applicable to the nomination, appointment, election and re-election of Directors.

RISK MANAGEMENT COMMITTEE

The risk management committee of the Company ("Risk Management Committee") was established on 31 March 2017 with written terms of reference in compliance with the CG Code. The purpose of establishment of the Risk Management Committee is to identify, discuss, address and review any risk or potential risk of the Company and advise the Board of the overall risk management strategies of the Company. Mr. Zhu Zhengfu, an independent non-executive Director, has been appointed as the chairman of the Risk Management Committee and Mr. Cui Jinfeng, an executive Director and Mr. Cheung Ka Fai, an independent non-executive Director, have been appointed as members of the Risk Management Committee, all with effect from 31 March 2017. The committee is responsible for advising the Board on the overall risk appetite/tolerance, risk management strategies and internal control of the Company and its subsidiaries and overseeing senior management's implementation of those strategies established and approved by the Board and providing an independent review of the effectiveness of the strategies adopted to ensure that it aligned with the Company's overall business objectives.

During the year, the Risk Management Committee met once to review and assess the adequacy and effectiveness of the risk management and internal control systems of the Group, and recommend to the Board for the approval of the risk management report for the year ended 31 December 2017.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The individual attendance record of each Director at the meetings of the Board, general meeting of the Company, Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee for the year is set out below:

	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	Annual General Meeting	Extraordinary General Meeting
Executive Directors							
Mr. Yan Zhi							
(Co-chairman and Co-chief							
executive officer)	4/4	N/A	1/1	N/A	N/A	1/1	2/2
Dr. Gang Yu *(Co-chairman)*	4/4	N/A	N/A	N/A	N/A	1/1	2/2
Mr. Wei Zhe, David	4/4	N/A	N/A	N/A	N/A	1/1	2/2
Mr. Cui Jinfeng	4/4	N/A	N/A	N/A	1/1	1/1	2/2
Mr. Peng Chi *(Note 1)*	2/2	N/A	N/A	1/1	N/A	1/1	2/2
Mr. Qi Zhiping *(Note 2)*							
(Co-chief executive officer)	2/2	N/A	N/A	N/A	N/A	N/A	N/A
Independent non-executive Directors							
Mr. Cheung Kai Fai	4/4	2/2	1/1	N/A	1/1	1/1	2/2
Mr. Wu Ying	4/4	2/2	1/1	1/1	N/A	1/1	2/2
Mr. Zhu Zhengfu	4/4	2/2	N/A	1/1	1/1	1/1	2/2

Notes:

1. Mr. Peng Chi resigned as an executive Director with effect from 6 July 2018.

2. Mr. Qi Zhiping was appointed as an executive Director with effect from 6 July 2018.

DIRECTORS' TRAINING

Directors must keep abreast of their collective responsibilities and are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide to each newly appointed Director or alternative Director an induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's businesses and the statutory regulatory obligations of a director of a listed company as well as the Company's constitutional documents to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements. The Group also provided briefings and other trainings to develop and refresh the Directors' knowledge and skills from time to time. Further, the Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2018, the Company has provided the Directors with written training materials and/or updates covering topics of amendments to the Listing Rules, duties and responsibilities of Directors as well as corporate governance related matters relevant to their duties. All the Directors, namely Mr. Yan Zhi, Dr. Gang Yu, Mr. Wei Zhe, David, Mr. Cui Jinfeng, Mr. Peng Chi (resigned on 6 July 2018), Mr. Qi Zhiping, Mr. Cheung Ka Fai, Mr. Wu Ying, and Mr. Zhu Zhengfu have received the requisite training.

According to the training records maintained by the Company, the training programmes received by each of the Directors during the financial year is summarised as follows:

	Attendance/ Number of seminars
Executive Directors:	
Mr. Yan Zhi	3/3
Dr. Gang Yu	3/3
Mr. Wei Zhe, David	3/3
Mr. Qi Zhiping *(appointed on 6 July 2018)*	1/3
Mr. Cui Jinfeng	3/3
Mr. Peng Chi *(resigned on 6 July 2018)*	2/3
Independent Non-Executive Directors:	
Mr. Cheung Ka Fai	3/3
Mr. Wu Ying	3/3
Mr. Zhu Zhengfu	3/3

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code for dealing in securities of the Company by the Directors. Having made specific enquiries with all Directors, all Directors have confirmed compliance with the required standards set out in the Model Code during the year ended 31 December 2018. Employees of the Group, who are likely to be in possession of unpublished inside information, have been requested to comply with provisions similar to those terms in the Model Code.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the financial year ended 31 December 2018 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the "Independent Auditor's Report" on pages 54 to 62 of this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2018, the remuneration paid or payable to the Group's auditors, KPMG, Certified Public Accountants, in respect of their audit and non-audit services are as follows:

Items	amount (RMB'000)
Audit services for 2018	4,900
Non-audit services:	
– Other services	–

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has developed the Group's internal control, risk assessment and management system and has overall responsibility for reviewing and maintaining an adequate and effective risk management and internal control system to safeguard the interests of the shareholders and the assets of the Group. It evaluates the effectiveness of the systems at least annually to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting internal audit and financial reporting functions. The Company engaged external consultant every year since 2016 to facilitate the review of the Group's risk management and internal control system. The relevant person in charge followed up the consultant's advices or recommendations so as to enhance the Group's capability in risk management and internal control. The Company has reported the work status of risk assessment to the Audit Committee. In addition, to further enhance internal auditing monitor and improve internal auditing independence, the Group set up the auditing department in December 2017 which reports directly to the Audit Committee and is independent from the day-by-day operation of the Group. The Group also formulated the relevant system and procedures for internal auditing. The primary functions of auditing department include forming a complete internal auditing system, drafting the annual internal auditing plan for the Group and organizing auditing duties, performing regular auditing in respect of the Group's principal operating business and reporting the results to the Board directly.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Company's risk management and internal control systems are designed to manage and mitigate risks, rather than eliminate risks, and can only provide reasonable and not absolute assurance against material misstatement or loss. We have employed a bottom-up approach for identification, assessment and mitigation of risk at all business unit levels and across functional areas.

MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The key elements of the Company's risk management and internal control systems include the establishment of a risk register to keep track of and document identified risks, the assessment and evaluation of risks, the development and continuous updating of responsive procedures, and the ongoing testing of internal control procedures to ensure their effectiveness. An ongoing risk management approach is adopted by the Company for identifying and assessing the key inherent risks that affect the achievements of its objectives. A risk matrix is adopted to determine risk rating (L = low risk, M = medium risk, H = high risk) after evaluation of the risk by the likelihood and the impact of the risk event. The risk ratings reflect the level of management attention and effort of risk treatment required.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Board has already established a policy on the procedures and internal controls for the handling and dissemination of inside information. The policy stipulated the duty and responsibility of inside information announcement, restriction on sharing non-public information, handling of rumours, unintentional selective disclosure, exemption and wavier to the disclosure of inside information, and also compliance and reporting procedures.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2018, and considered the internal control of the Group is effective and adequate.

MANAGEMENT OF KEY RISKS

Through the process of risk identification and evaluation, certain key risks can be identified. The extent and importance of the impact of these risks vary according to changes in the external environment.

(1) Information system risk

As the Company continues to increase its efforts to develop online businesses and accelerate the evolution of online and offline integrated supply chain industries, informatization is a necessary means to help the Company achieve this goal and improve business operations efficiency. The business information stored in the information system is an important asset of the Company. Failure to establish system and information technology security strategies and corresponding control measures may lead to major information leakage incidents which in turn affect the reputation of the Company and customers' confidence and result in compliance risks.

In response to information security risks, the Company has established adequate and appropriate internal management system to regulate information security related operations, including approval of information transfer and release; permission settings of information extraction, access and modification. Moreover, in addition to setting up a unified and professional information technology team to control information security, the Company also cooperates with leading enterprises in the network and information security management field to enhance the Group's information systems and security strategies.

(2) Corporate culture

The Company has developed rapidly in recent years. The e-commerce strategies were achieved through including various online product platforms by way of mergers and acquisitions. In 2018, the Company acquired companies such as HSH, Haishangxian which gradually diversified its business. However, newly acquired subsidiaries from different backgrounds, regions and businesses possessed different cultures and values with the Company. Failure to shape the common values, codes of conduct and ethics from top to bottom in addition to system control may increase operational risk in each business process, which is unfavourable to the Company's employees cohesiveness and would in turn adversely affect operational efficiency and unlikely to achieve strategic development.

Although corporate culture is invisible, it is an important factor of corporate management. In view of this, the management of the Company will gradually integrate with the acquired companies in the course of business and reach a conceptual consensus, thus forming a common recognized value and establishing a new common culture and corporate operation strategies to maximize profits and achieve long-term corporate development.

(3) Resource allocation risk

In recent years, the Company has accelerated its business layout in the e-commerce and financial sectors, acquired the largest online agricultural products trading platform in China, Shenzhen Sinoagri. HSH was also acquired and Zall Steel was established. Various supply chain management and trading companies were established to provide wholesale distribution, import and export and other supply chain management services for merchants. Combining with the large-scale offline real business and trade logistics market, the support of all relevant business ecosystems was promoted which formed a business relationship of mutual synergy, mutual support and common development. The reasonable layout in various industry sector resources of Zall Smart Commerce is particularly important for the balanced and rapid development of Zall Smart Commerce. If there is a lack of planning for the allocation of resources in each business segment, it may result in unbalanced resource input, unsynchronized capacity development and cask effects may surfaced which would affect the overall output effect of the resources invested and hinder business development.

The Company manages resource allocation risks mainly from three areas: human resources, internal funds and external financing. In terms of human resources, the Company builds the human resources team of different business segments based on its own development strategy and puts more targeted resources for talent training, thus promoting the rapid development of the Company. In terms of internal funds, the Company provides different levels of support and allocates resource based on the resources needs of its various subsidiaries, thus optimize the resource usage cycle. In terms of external financing, the Company will enhance its adoption of a more strategic capital and bond financing platform to optimize the capital usage cycle, thus to organize new capital structures to reduce overall risks.

(4) PR management risk

With the advent of the intelligent trading and industrial Internet era, the Company has gradually transformed into an intelligent trading ecosystem. Under the diversified development of the Company, macroeconomic and market changes, capital market volatility and pressure, the business management and PR crisis handling capabilities of the Company are facing new challenges. In the prospect of increased business and management complexity, the Company needs to further establish a PR crisis management and control mechanism to effectively communicate and coordinate with the Company's internal, media and audiences when encountering problems, thereby mitigating the crisis and reducing PR risks that bring crises to reputation and brand image, thus minimizing the damage of interests.

In response to the relevant risks, the Company has established various targeted control measures, including establishing close and constant communication channels with customers to identify and deal with potential crises as early as possible, rectifying and optimizing crisis response mechanisms and processes based on past experience, establishing the internal crisis response team which is responsible for handling crisis events promptly and effectively, and establishing a unified PR crisis notification management mechanism at Group level to enhance the crisis response capability of the Company.

(5) Supply chain financial credit risk

Zall Jinfu, a subsidiary of the Company provides one-stop financial solutions including financial leasing, factoring and guarantee for trading platform users, and customize comprehensive financial services for customers based on their different financial needs. However, since the supply chain financial services is mainly targeting the SMEs customer base in the upstream and downstream of the industrial chain, the enterprise scale and risk defense capabilities of the customer are mixed which certain degree of credit risks exist. Therefore, the Company's good and effective credit risk management and control mechanism is critical to the safety and stability of working capital.

In order to ensure the sustainable and healthy development of the supply chain financial business, the Company implements strict control over credit. The Company has established a suitable auditing mechanism covering customers' credit and transaction structure to analyze and control transaction risks systematically and scientifically. In terms of financing projects, the Company approves financing projects based on strict customer evaluation standards to ensure that only customers with good business performance and financial stability can use financing services. In addition, the Company will only approve a financing project when the project's revenue can fully cover the risk. The Company will continue to monitor the effectiveness of the above control mechanism and control credit risk to an acceptable level.

DEED OF NON-COMPETITION

The Company has received, from each of the controlling shareholders of the Company, an annual declaration on his/her/its compliance with the undertakings contained in the deed of non-competition (the "Deed of Non-Competition") entered into by each of them in favour of the Company and the revised deed of non-competition (the "Revised Deed") entered into by each of them in favour of the Company after restructuring pursuant to which each of the controlling shareholders of the Company has undertaken to the Company that he/she/it will not and will procure that his/her/its associates (other than members of the Group) not to, engage in any of our business including (without limitation), developing and operating large-scale, consumer product focused wholesale shopping malls in China.

The independent non-executive Directors have reviewed and were satisfied that each of the controlling shareholders of the Company has complied with the Deed of Non-Competition for the year ended 31 December 2018.

As further set out in the circular of the Company dated 31 December 2014 (the "Restructuring Circular"), the Group previously carried out certain restructuring of its businesses (the "Restructuring") to, among others, dispose of certain of its non-core businesses to its controlling shareholders. After the Restructuring and until the Group has disposed of or realised all its remaining non-core property projects, the business owned/controlled by the controlling shareholders may overlap with the business of the Group in terms of business nature (but not necessarily in direct competition). As such, a revised deed of non-competition dated 30 June 2015 (superseding the original deed of non-competition dated 20 June 2011) was entered into by the Company's controlling shareholders in favour of the Company (as superseded, the "Deed of Non-Competition"), pursuant to which each of the controlling shareholders of the Company has undertaken to the Company that he/she/it will not and will procure that his/her/its associates (other than members of the Group) not to, engage in any of the Group's businesses including (without limitation), developing and operating large-scale, consumer product focused wholesale shopping malls in China. As at 31 December 2018, except North Hankou Zall Life City – Phase II, all of the Remaining Non-core Projects (as defined in the Restructuring Circular) have been disposed. North Hankou Zall Life City – Phase II is a residential project with gross floor area of approximately 207,000 square meters in North Hankou region. As satisfiable profit and cash flow could be generated from this project, the Group has hold back the project and sold part of it based on the market circumstances. As at 31 December 2018, approximately 116,000 square meters was pre-sale and the construction is expected to be completed in 2019.

Further details of the Restructuring and the Deed of Non-Competition were disclosed in the Restructuring Circular.

DIVIDEND POLICY

The Company's dividend policy aims to allow shareholders to participate in the Company's profit and for the Company to retain adequate reserves for future growth. In proposing any dividend payout, the Company would consider various factors including (i) the Group's actual and expected financial performance; (ii) general economic and financial conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; (iii) the Group's business and operating strategies including future cash commitments and investment needs in order to maintain long-term business growth; (iv) current and future business, liquidity position and capital requirements; and (v) any other factors that the Board deems appropriate.

COMPANY SECRETARY

The company secretary of the Company (the "Company Secretary") is responsible for facilitating the Board's processes and communications among Board members, and with the shareholders and advising the Board on all corporate governance matters.

Ms. Foo Man Yee of CS Legend Corporate Services Limited, an external services provider, has been appointed as the Company Secretary since from July 2018. Her primary contact persons at the Company are Mr. Zhu Guo Hui, the chief financial officer of the Company and Ms. Zhai Yangyang, the senior manager of legal and compliance.

During the year ended 31 December 2018, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of maintaining a clear, timely and effective communication with the shareholders of the Company and investors. The Board also recognizes that effective communication with its investors is critical in establishing investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the Company's website at www.zallcn.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and members of various Board committees will attend the annual general meeting of the Company and answer any questions raised. The resolution of every important proposal will be proposed at general meetings separately. The chairman of general meetings of the Company would explain the procedures for conducting a poll before proposing a resolution for voting. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

SHAREHOLDER RIGHTS

Convening an extraordinary general meeting by shareholders

Procedures for shareholders to convene an extraordinary general meeting (including making proposals/moving a resolution at the extraordinary general meeting)

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at an extraordinary general meeting.

- Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at an extraordinary general meeting must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an extraordinary general meeting, the agenda proposed to be included the details of the business(es) proposed to be transacted in the extraordinary general meeting, signed by the Eligible Shareholder(s) concerned.

- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene an extraordinary general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the memorandum and articles of associations, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post or email to investorrelations@zallcn.com.

INVESTOR RELATIONS

Investors Communication Policy

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. To promote effective communication, the Company maintains a website at http://www.zallcn.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Telephone number:	852-3153 5810
By post:	Suite 2101, 21/F., Two Exchange Square, Central, Hong Kong
By email:	investorrelations@zallcn.com

Independent Auditor's Report

Independent auditor's report to the shareholders of Zall Smart Commerce Group Ltd.
(Formerly known as "Zall Group Ltd.")
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zall Smart Commerce Group Ltd. ("the Company") (formerly known as Zall Group Ltd.) and its subsidiaries ("the Group") set out on pages 63 to 200, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing potential impairment of goodwill

Refer to note 13 to the consolidated financial statements and the accounting policies on page 84 and page 94.

The Key Audit Matter

As of 31 December 2018, the carrying amount of goodwill, which mainly arose from the acquisition of Shenzhen Sinoagri E-commerce Co., Ltd. in 2017 and HSH International Inc. in 2018, were RMB1,252 million, representing 6% of the Group's net assets at that date.

Management assesses potential impairment of goodwill on an annual basis. The impairment assessment of goodwill is carried out by management based on independent valuations of the respective cash generating units ("CGUs") prepared by a firm of qualified external valuers.

The values of CGUs are estimated based on the respective discounted cash flow forecasts prepared by the management.

The preparation of discounted cash flow forecasts involves the exercise of significant management judgement in particular in determining the key assumptions adopted, which include sales volumes, sales prices and the gross profit ratio and in calculating the discount rate applied.

We identified assessing potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because the assessment of potential impairment of goodwill are inherently subjective and require significant judgement and estimation which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls over preparation of the discounted cash flow forecasts on which the estimation of the recoverable amount of goodwill are based;
- obtaining and inspecting the valuation report prepared by the external valuers engaged by the Group on which the management's assessments of impairment of goodwill were based;
- assessing the external valuers' qualifications, experience and expertise and considering their objectivity and independence;
- assessing and challenging the Group's identification of CGUs and the allocation of goodwill and other assets to those CGUs with reference to the requirements of the prevailing accounting standards;
- with the assistance of our internal valuation specialists, evaluating the methodology used in the valuations of CGUs, challenging the key assumptions and critical judgements made in the preparation of the discounted cash flow forecasts prepared by management by comparing key inputs, which included sales volumes, sales prices and the gross profit ratio, with historical performance, management's budgets and forecasts and other external available information, and evaluating the discount rate applied in the discounted cash flow forecasts by assessing if the parameters adopted in calculating the discount rate was within the range of those adopted by other companies in the same industry and with similar risk profile;
- obtaining management's sensitivity analyses for the key assumptions, including sales volumes, sales prices, the gross profit ratio and the discount rate, adopted in the preparation of the discounted cash flow forecasts and assessing the impact of changes in the key assumptions on the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias;
- performing a retrospective review by comparing the prior year's forecasts with the current year's results to assess the historical accuracy of management's forecasting process and if any management bias; and
- assessing the disclosures in the consolidated financial statements in respect of the assessment of potential impairment of goodwill with reference to the requirements of the prevailing accounting standards.

Assessing the net realisable value of properties under development for sale and completed properties held for sale

Refer to note 19 to the consolidated financial statements and the accounting policies on page 96.

The Key Audit Matter

As at 31 December 2018, the Group owned properties under development for sale and completed properties held for sale located in the People's Republic of China ("PRC") with an aggregate carrying amount of RMB5,813 million, which represented 11% of the Group's total assets at that date. These properties comprise retails units and residential apartments located in the cities of Wuhan, Tianjin, Changsha and Jingzhou.

These properties are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires judgement and estimations, which include expected future selling prices and the costs necessary to complete the sale of these properties, and is assessed by Group management.

Recent changes in local government policies in certain cities in PRC, which affect interest rates, the required reserve ratio for banks and/or mortgage requirements for second-home buyers, could lead to volatility in property prices which could mean that provisions are necessary at the reporting date.

We identified the assessment of the net realisable value of properties under development for sale and completed properties held for sale as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future selling prices and future construction costs which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess the net realisable value of properties under development for sale and completed properties held for sale included the following:

- challenging the Group's forecast sales prices by comparing the forecast sales prices for a sample of properties to sales prices achieved before and after the reporting date and the list prices of comparable properties;
- challenging the Group's forecast of construction cost per square metre by comparison with construction costs for similar units in other areas and where there were differences, obtaining explanations from senior operational, commercial and financial management and comparing their explanations with correspondence with suppliers and comparable properties in nearby locations;
- discussing significant property development projects with the relevant project managers to identify the key drivers behind the appraisal forecasts and net realisable values, such as forecast yields and cost plans;
- conducting site visits to properties under development for sale, on a sample basis, to observe the development progress and challenging management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.

Valuation of investment properties

Refer to note 10 to the consolidated financial statements and the accounting policies on page 86.

The Key Audit Matter	How the matter was addressed in our audit
The Group holds a portfolio of investment properties, including completed investment properties and investment properties under development located in PRC with a carrying value of RMB25,456 million which accounted for 48% of the Group's total assets as at 31 December 2018. These properties comprise logistic units, e-commerce malls and wholesale shopping malls. The fair values of investment properties as at 31 December 2018 were assessed by the directors based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair value of investment properties recorded in the consolidated statement of profit or loss represented 165% of the Group's profit before taxation for the year ended 31 December 2018. We identified valuation of the Group's investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and the significance of changes in fair value of investment properties to the Group's profit before taxation and because the valuation of investment properties can be inherently subjective and requires significant management judgement and estimation which increases the risk of error or potential management bias, particularly given the number and the diverse nature and location of the investment properties held by the Group.	Our audit procedures to address the valuation of investment properties included the following: • obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties was based; • assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence; • with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology and challenging the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with available market data; • conducting site visits to investment properties under development, on a sample basis, to observe the development progress and challenging management's development budgets reflected in the valuations with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.

Transition adjustments and disclosures in relation to the adoption of IFRS 9 Financial Instruments

Refer to note 1(c)(i) to the consolidated financial statements and the accounting policies on page 72.

The Key Audit Matter	How the matter was addressed in our audit
The Group has applied International Financial Reporting Standard 9 – Financial Instruments ("IFRS 9") since 1 January 2018. IFRS 9 has amended the previous classification and measurement framework of financial instruments and introduced a more complex expected credit loss model to assess impairment. The Group is required to retrospectively apply the classification and measurement (including impairment) requirements and recognise any difference between the original carrying amount and new carrying amount at the date of initial application (i.e. 1 January 2018) in the opening retained earnings or other component of equity. We identified the transition adjustments and disclosures in relation to the application of IFRS 9 as a key audit matter, because of the complexity of the transition process which involved changes in internal controls of the financial reporting process, accounting treatment, application of new data and management judgment.	Our audit procedures to assess the transition adjustments and disclosures in relation to the adoption of IFRS 9 included the following: • understanding and assessing the key internal controls of the financial reporting process related to the adoption of IFRS 9; • evaluating the accuracy of the classification of financial instruments. We obtained information on how management applied the classification requirements of IFRS 9 and the classification results. On a sample basis we assessed the contractual cash flow characteristics of the financial assets and relevant documents in relation to the business model; • with the assistance of our internal specialists, assessing the reliability of the expected credit loss model used by management in determining loss allowances on transition and assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model; • obtaining journal entries relating to adjustments made on transition to IFRS 9 and compared the list of classification of financial instruments, the original carrying amounts, the list of journal entries and new carrying amounts of the financial instruments to assess if the journal entries have been entirely put through the system accurately. We selected samples to assess if the accounting treatment is in accordance with the requirements of IFRS 9; • selecting samples to recalculate the new carrying amount of the financial instruments and assessing the accuracy of the opening balance at the date of initial application (i.e. 1 January 2018); and • assessing whether the relevant disclosures in relation to the adoption of IFRS 9 are in compliance with the prevailing accounting standards.

Loss allowance for loans and factoring receivables

Refer to note 21(b) to the consolidated financial statements and the accounting policies on page 89.

The Key Audit Matter

The Group has applied IFRS 9 since 1 January 2018 and developed a new impairment model for financial assets.

The determination of loss allowances using the expected credit loss model ("ECL model") is subject to a number of key parameters and assumptions, including the identification of credit-impaired stage, estimates of probability of default, loss given default, exposures at default, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

We identified loss allowance for loans and factoring receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.

How the matter was addressed in our audit

Our audit procedures to assess the loss allowance for loans and factoring receivables included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and factoring receivables, the identification of the three stages of the ECL model and the measurement of provisions for impairment;
- with the assistance of our internal specialists, assessing the reliability of the expected credit loss model used by management in determining allowances for impairment losses, and the appropriateness of the key parameters and assumptions in the expected credit loss model, which includes the identification of credit-impaired stage, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other management adjustments;
- assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model:
    - for key parameters derived from internal data relating to loans and factoring agreements, we selected samples and compared individual loans and factoring receivables information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loans and factoring receivables list;
    - for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to IFRS 9 and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development;

The Key Audit Matter	How the matter was addressed in our audit
	• for selected samples of loans and factoring receivables that are credit-impaired, evaluating management's assessment of the value of any collateral held by comparison with market prices obtained from secondary markets. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; • recalculating the amount of credit loss allowance for 12 months and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and factoring receivables where the credit risk of the loans and factoring receivables have not, or have, increased significantly since initial recognition, respectively; and • evaluating whether the disclosures on impairment of loans and factoring receivables meet the disclosure requirements in International Financial Reporting Standard 7 – Financial Instruments: Disclosures.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual reports, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirement of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Liu Hin Pan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Revenue	3(a)	56,116,072	22,249,176
Cost of sales		(54,556,472)	(21,236,921)
Gross profit		1,559,600	1,012,255
Other net loss	4	(530,495)	(39,900)
Selling and distribution expenses		(213,657)	(196,368)
Administrative and other expenses		(760,769)	(492,453)
Impairment loss on trade and other receivables	5(c)	(265,422)	(20,557)
Impairment loss on intangible assets	12	(152,824)	–
Impairment loss on goodwill	13	(461,028)	–
(Loss)/profit from operations before changes in fair value of investment properties		(824,595)	262,977
Net valuation gain on investment properties	10	3,865,192	3,021,326
Profit from operations		3,040,597	3,284,303
Finance income	5(a)	206,000	89,001
Finance costs	5(a)	(697,151)	(534,360)
Share of net losses of associates	15	(172,873)	(36,050)
Share of net (losses)/profits of joint ventures	16	(2,343)	727
Impairment loss on investment in an associate	15	(26,155)	–
Profit before taxation	5	2,348,075	2,803,621
Income tax	6(a)	(1,074,168)	(447,139)
Profit for the year		1,273,907	2,356,482
Attributable to:			
Equity shareholders of the Company		1,371,304	2,379,077
Non-controlling interests		(97,397)	(22,595)
Profit for the year		1,273,907	2,356,482
Earnings per share (RMB cents)			
Basic	9	11.76	21.23
Diluted	9	11.75	21.23

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 71 to 200 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 29(e).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Profit for the year		1,273,907	2,356,482
Other comprehensive income for the year (after tax and reclassification adjustments)			
Item that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycle)		(1,895)	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
– financial statements of operations outside Mainland China		(20,793)	(20,042)
Other comprehensive income for the year		(22,688)	(20,042)
Total comprehensive income for the year		1,251,219	2,336,440
Attributable to:			
Equity shareholders of the Company		1,350,993	2,359,035
Non-controlling interests		(99,774)	(22,595)
Total comprehensive income for the year		1,251,219	2,336,440

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 71 to 200 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current assets			
Investment properties	10	25,456,399	20,206,738
Property, plant and equipment	11	314,300	216,981
Intangible assets	12	755,305	899,151
Goodwill	13	1,252,042	1,606,280
Interests in associates	15	467,588	490,586
Interests in joint ventures	16	25,519	114,387
Long-term receivables		–	324,862
Available-for-sale financial assets	17	–	12,500
Equity investment at fair value through other comprehensive income	17	8,702	–
Contract assets	20	329,876	–
Deferred tax assets	28(b)	211,047	67,997
		28,820,778	23,939,482
Current assets			
Financial assets at fair value through profit or loss	18	4,785,355	5,074,617
Inventories and other contract costs	19	6,277,105	7,162,524
Prepaid taxes	28(a)	12,017	16,025
Trade and other receivables	21	8,604,425	7,098,070
Amounts due from related parties	33(c)	193,293	82,760
Fixed deposits with banks with original maturity over three months		203,287	132,602
Pledged bank deposits	22	3,066,232	2,553,901
Cash and cash equivalents	23	1,118,626	1,283,647
		24,260,340	23,404,146
Current liabilities			
Financial liabilities at fair value through profit or loss	18	142,327	450,140
Trade and other payables	24	11,006,540	12,511,792
Contract liabilities	20	1,835,718	–
Amounts due to related parties	33(c)	956,391	583,409
Interest-bearing borrowings	25	9,255,114	5,572,061
Current taxation	28(a)	452,480	284,652
Deferred income		5,993	5,401
		23,654,563	19,407,455
Net current assets		605,777	3,996,691
Total assets less current liabilities		29,426,555	27,936,173

Consolidated Statement of Financial Position (Continued)

at 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current liabilities			
Interest-bearing borrowings	25	4,970,830	5,422,356
Deferred income		2,879	7,183
Deferred tax liabilities	28(b)	4,785,009	3,845,747
Financial liabilities at fair value through profit or loss	18	59,024	–
		9,817,742	9,275,286
NET ASSETS		19,608,813	18,660,887
CAPITAL AND RESERVES	29		
Share capital		32,437	32,292
Reserves		18,747,155	17,748,918
Total equity attributable to equity shareholders of the Company		18,779,592	17,781,210
Non-controlling interests		829,221	879,677
TOTAL EQUITY		19,608,813	18,660,887

Approved and authorised for issue by the board of directors on 29 March 2019.

Yan Zhi
Co-chairman, Executive Director and Co-chief executive officer

Cui Jinfeng
Executive Director

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 71 to 200 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company												
	Note	Share capital RMB'000 29(b)	Share premium RMB'000 29(c)(i)	Shares held for various incentive plans RMB'000 29(b)(i)(ii)	PRC statutory reserve RMB'000 29(c)(ii)	Other reserve RMB'000 29(c)(v)	Exchange reserve RMB'000 29(c)(iii)	Revaluation reserve RMB'000 29(c)(vi)	Equity-settled share-based payment reserve RMB'000 29(c)(iv)	Fair value reserve (non-recycling) RMB'000 29(c)(vii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		29,727	779,593	–	414,552	525,962	(107,462)	36,946	–	–	10,425,229	12,104,547	34,685	12,139,232
Changes in equity for 2017:														
Profit for the year		–	–	–	–	–	–	–	–	–	2,379,077	2,379,077	(22,595)	2,356,482
Other comprehensive income		–	–	–	–	–	(20,042)	–	–	–	–	(20,042)	–	(20,042)
Total comprehensive income		–	–	–	–	–	(20,042)	–	–	–	2,379,077	2,359,035	(22,595)	2,336,440
Issuance of new shares		1,038	1,305,453	–	–	–	–	–	–	–	–	1,306,491	–	1,306,491
Issuance of shares for Management Shares Award Scheme		23	59,152	(59,175)	–	–	–	–	–	–	–	–	–	–
Appropriation to statutory reserve	29(c)(ii)	–	–	–	22,861	–	–	–	–	–	(22,861)	–	–	–
Equity-settled share-based payment for employee	27	–	–	–	–	(25,842)	–	–	65,259	–	–	39,417	25,842	65,259
Equity-settled share-based payment for non-employee	27	–	–	–	–	–	–	–	57,225	–	–	57,225	–	57,225
Acquisition of subsidiaries		1,504	2,218,644	–	–	–	–	–	–	–	–	2,220,148	853,428	3,073,576
Acquisition of additional interest in subsidiaries		–	–	–	–	(307,000)	–	–	–	–	–	(307,000)	–	(307,000)
Dividends to non-controlling interests of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(4,242)	(4,242)
Capital injection from non-controlling interests of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	244	244
Withdraw of capital investment by a non-controlling equity holder		–	–	–	–	–	–	–	–	–	–	–	(9,000)	(9,000)
Capital injection of an associate		–	–	–	–	1,347	–	–	–	–	–	1,347	1,315	2,662
Balance at 31 December 2017 (Note)		32,292	4,362,842	(59,175)	437,413	194,467	(127,504)	36,946	122,484	–	12,781,445	17,781,210	879,677	18,660,887
Impact on initial application of IFRS 15	1(c)(ii)	–	–	–	–	–	–	–	–	–	(14,888)	(14,888)	(46)	(14,934)
Impact on initial application of IFRS 9	1(c)(i)	–	–	–	–	–	–	–	–	(953)	(219,653)	(220,606)	(8,105)	(228,711)
Adjusted balance at 1 January 2018		32,292	4,362,842	(59,175)	437,413	194,467	(127,504)	36,946	122,484	(953)	12,546,904	17,545,716	871,526	18,417,242

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

Consolidated Statement of Changes in Equity (Continued)

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	Share capital RMB'000 29(b)	Share premium RMB'000 29(c)(i)	Shares held for various incentive plans RMB'000 29(b)(i)(ii)	PRC statutory reserve RMB'000 29(c)(ii)	Other reserve RMB'000 29(c)(v)	Exchange reserve RMB'000 29(c)(iii)	Revaluation reserve RMB'000 29(c)(vi)	Equity-settled share-based payment reserve RMB'000 29(c)(iv)	Fair value reserve (non-recycling) RMB'000 29(c)(vii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company												
Adjusted balance at 1 January 2018		32,292	4,362,842	(59,175)	437,413	194,467	(127,504)	36,946	122,484	(953)	12,546,904	17,545,716	871,526	18,417,242
Changes in equity for 2018:														
Profit for the year		-	-	-	-	-	-	-	-	-	1,371,304	1,371,304	(97,397)	1,273,907
Other comprehensive income		-	-	-	-	-	(18,416)	-	-	(1,895)	-	(20,311)	(2,377)	(22,688)
Total comprehensive income		-	-	-	-	-	(18,416)	-	-	(1,895)	1,371,304	1,350,993	(99,774)	1,251,219
Issue of shares for Incentive Shares	29(b)(i)	23	69,850	(69,873)	-	-	-	-	-	-	-	-	-	-
Issue of shares for VKC Consultancy Service Consideration Shares	29(b)(ii)	93	279,381	(279,474)	-	-	-	-	-	-	-	-	-	-
Capital injection from non-controlling interest of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	38,740	38,740
Acquisition of non-controlling interest of subsidiaries		-	-	-	-	(14,504)	-	-	-	-	-	(14,504)	(142)	(14,646)
Appropriation to statutory reserve	29(c)(ii)	-	-	-	13,026	-	-	-	-	-	(13,026)	-	-	-
Dividends approved in respect of the previous year	29(e)	-	(246,653)	-	-	-	-	-	-	-	-	(246,653)	-	(246,653)
Dividends to non-controlling interests of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	(13,302)	(13,302)
Equity-settled share-based payment for employee	27/29(b)(i)	6	9,055	11,835	-	(26,471)	-	-	50,962	-	-	45,387	26,795	72,182
Equity-settled share-based payment for non-employee	27/29(b)(ii)	23	49,827	-	-	-	-	-	47,631	-	-	97,481	-	97,481
Acquisition of subsidiaries		-	-	-	-	1,172	-	-	-	-	-	1,172	12,138	13,310
Disposal of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	(6,760)	(6,760)
Balance at 31 December 2018		32,437	4,524,302	(396,687)	450,439	154,664	(145,920)	36,946	221,077	(2,848)	13,905,182	18,779,592	829,221	19,608,813

The notes on pages 71 to 200 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Operating activities			
Cash used in operations	23(b)	(367,497)	(2,072,986)
Income tax paid		(48,441)	(44,164)
Net cash used in operating activities		(415,938)	(2,117,150)
Investing activities			
Payment for the purchase of property, plant and equipment		(151,971)	(30,674)
Proceeds from disposal of property, plant and equipment		1,308	1,193
Proceeds from disposal of intangible assets		–	98
Placement of fixed deposits at banks with original maturity over three months		(193,287)	(122,602)
Maturity of fixed deposits at banks with original maturity over three months		122,602	–
Payment for the purchase of intangible assets		(28,846)	(12,043)
Interest received		152,071	89,001
Cash (paid)/receipt from acquisition of subsidiaries	34	(118,744)	1,237,163
Payment for investment in associates		(156,198)	(26,897)
Dividends received from financial assets at fair value through profit or loss	4	10,922	10,207
Proceeds from refunding investment		–	1,000,000
Purchase of financial assets at fair value through profit or loss			
– Listed equity securities		–	(133,345)
– Wealth management products and trust products		(4,220,358)	(1,909,395)
Disposal of listed equity securities		196,142	77,541
Cash receipt from maturity of wealth management products and trust products		3,637,286	1,952,948
Payment for available-for-sale financial assets		–	(12,500)
Loans to a third party		–	(167,585)
Advance to related parties	33(b)(iii)	(1,185,960)	(389,022)
Repayment from related parties	33(b)(iv)	1,056,770	326,742
Net cash (used in)/generated from investing activities		(878,263)	1,890,830

Consolidated Cash Flow Statement (Continued)

for the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Financing activities			
Proceeds from placing new shares		–	1,306,491
Advance from related parties	23(c)	831,753	644,227
Repayment to related parties	23(c)	(448,535)	(1,043,133)
Proceeds from new bank loans and loans from other financial institutions	23(c)	6,451,594	6,333,369
Repayment of bank loans and loans from other financial institutions	23(c)	(5,747,415)	(5,329,619)
Proceeds from loans from third parties	23(c)	3,091,628	1,511,532
Repayment of loans from third parties	23(c)	(1,415,191)	(1,781,710)
(Increase)/decrease in pledged bank deposits		(512,274)	226,941
Interest and other borrowing costs paid		(641,177)	(901,985)
Dividend paid	29(e)	(246,653)	–
Dividend paid to non-controlling interests of subsidiaries		(13,302)	(4,242)
Net proceeds from disposal of subsidiaries		14,651	–
Withdrawal capital investment by non-controlling interests		–	(9,000)
Proceeds from capital injection from non-controlling interests		38,740	244
Proceeds from entering into a future contract		–	267,892
Settlement of a future contract		(268,089)	–
Redemption of convertible redeemable preference shares of a subsidiary		(12,554)	–
Net cash generated from financing activities		1,123,176	1,221,007
Net (decrease)/increase in cash and cash equivalents		(171,025)	994,687
Cash and cash equivalents at 1 January	23(a)	1,283,647	273,262
Effect of foreign exchange rate changes		6,004	15,698
Cash and cash equivalents at 31 December	23(a)	1,118,626	1,283,647

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 71 to 200 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise Zall Smart Commerce Group Ltd. (the "Company", formerly known as Zall Group Ltd.) and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– equity investments at fair value through other comprehensive income and financial assets at fair value through profit or loss (see note 1(g));

– investment properties (see note 1(i));

– derivative financial instruments (see note 1(h));

– contingent consideration recognised in a business combination (see note 1(d)); and

– convertible redeemable preference share (see note 1(s)).

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. Items included in the financial statements of each entity in the Group are measured using currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). Most of the companies comprising the Group are operating in the People's Republic of China ("PRC") and their functional currency is RMB, hence, RMB is used as the presentation currency of the Group.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) IFRS 9, Financial instruments

IFRS 9 replaces IAS 39, *Financial instruments*: *recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments (Continued)

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on financial assets measured at amortised cost	292,118
Related tax	(72,465)
Net decrease in retained earnings at 1 January 2018	219,653
Fair value reserve (non-recycling)	
Recognition of fair value reserve (non-recycling) relating to equity securities now measured at fair value through other comprehensive income ("FVOCL") and decrease on fair value reserve (non-recycling) at 1 January 2018	1,271
Related tax	(318)
	953
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests at 1 January 2018	8,105

Further details of the nature and effect of the changes to previous policies and the transition approach are set out below:

(a) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, FVOCI and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments (Continued)

(a) Classification of financial assets and financial liabilities (Continued)

	IAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	IFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets carried at amortised cost				
Long-term receivables (note (i))	324,862	(324,862)	–	–
Cash and cash equivalents	1,283,647	–	–	1,283,647
Fixed deposits with banks with original maturity over three months	132,602	–	–	132,602
Pledge bank deposits	2,553,901	–	–	2,553,901
Trade and other receivables	7,098,070	–	(302,925)	6,795,145
Amount due from related parties	82,760	–	–	82,760
	11,475,842	(324,862)	(302,925)	10,848,055
Financial assets measured at FVOCI (non-recyclable)				
Equity securities (note (ii))	–	12,500	(1,271)	11,229
Financial assets carried at FVPL				
Trade securities (note (iii))	2,123,751	–	–	2,123,751
Other derivative assets (note (iii))	2,950,866	–	–	2,950,866
	5,074,617	–	–	5,074,617
Financial assets classified as available-for-sale under IAS 39 (note (ii))	12,500	(12,500)	–	–

Notes:

(i) Long-term receivables of RMB324,862,000 were reclassified to contract assets at 1 January 2018 as a result of the initial application of IFRS 15 (see note1(c)(ii)).

(ii) Under IAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in Sinocan International Technologies Co., Ltd. at FVOCI, as the investment is held for strategic purpose.

(iii) Trading securities and other derivative assets were classified as financial assets at FVPL under IAS 39. These assets continue to be measured at FVPL under IFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 1(g), (h), (m), (p), (q) and (s).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments (Continued)

(a) Classification of financial assets and financial liabilities (Continued)

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts (see note 1(m)(ii)). The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(b) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, fixed deposits with banks with original maturity over three months, pledged bank deposits, trade and other receivables and amounts due from related parties);

– Contract asset as defined in IFRS 15 (see note 1(o));

– lease receivables; and

– financial guarantee contracts issued (see note1(m)(ii))

For further details on the Group's accounting policy for accounting for credit losses, see notes 1(m)(i) and (ii)

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018:

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	68,875
Additional credit loss recognised at 1 January 2018 on:	
– Trade debtors and bill receivables	279,178
– Loans and factoring receivables	23,747
Loss allowance at 1 January 2018 under IFRS 9	371,800

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, Financial instruments (Continued)

(c) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

The following table summarises the impact of transition to IFRS 15 on retained earnings, reserves and the related tax impact at 1 January 2018:

	RMB'000
Retained earnings	
Finance costs	19,851
Related tax	(4,963)
Net decrease in retained earnings at 1 January 2018	14,888
Non-controlling interests	
Recognition of finance costs and net decrease in non-controlling interests	46

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(a) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from construction contracts (see note 1(y)(iii)) and revenue recognition for sales of commodities (see note 1(y)(i)). However, the timing of revenue recognition for sales of properties is affected as follows:

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

(a) Timing of revenue recognition (Continued)

The Group's property development activities are carried out in Mainland China only. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of Mainland China, the property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously the Group recognised revenue from property sales when the construction of relevant properties has been completed and the properties have been delivered to the buyers, which was taken to be the point in time when the risks and rewards of ownership of the property were transferred to the customer. Under the transfer of-control approach in IFRS 15, revenue from property sales is generally recognised when the property is accepted by the customer, or deemed as accepted according to the contract, whichever is earlier, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

This change in accounting policy had no material impact on opening balances as at 1 January 2018. However, in future periods it may have a material impact, depending on the timing of completion of the Group's property development projects.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is common for the Group to receive payments significantly in advance of revenue recognition in the Group's sales of properties when properties are marketed by the Group while the property is still under construction. Depending on market conditions, the Group requires the customers to pay off the full consideration within an agreed time frame while developments are still ongoing, rather than on the completion of the relevant properties. Such advance payment schemes result in contract liabilities being recognised throughout the remaining property development period for the full amount of the contract price. In addition, the contract liabilities will be increased by the amount of interest expense being accrued by the Group to reflect the effect of any significant financing benefit obtained from the customers during the period between the payment date and the completion date of delivery. As this accrual increases the amount of the contract liabilities during the period of development, it therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

(b) Significant financing component (Continued)

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the revenue recognition date. This accrual increases the amount of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under IAS 23, *Borrowing costs*, in accordance with the polities set out in note 1(aa).

As a result of this change in policy, the Group has made adjustments which increased inventories and contract liabilities by RMB18,857,000 and RMB38,768,000 at 1 January 2018 respectively. As not all of the accrued interest was eligible to be capitalised into projects still under construction, this change in policy has decreased on retained earnings as at 1 January 2018 by RMB14,934,000.

(c) Sales commissions payable related to property sales contracts

The Group previously recognised sales commissions payable related to property sales contracts as distribution costs when they were incurred. Under IFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as distribution costs at that time.

This change in accounting policy had no material impact on opening balance as at 1 January 2018.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

(d) Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 1(o)).

Previously, contract balances relating to construction contracts in progress were presented in the statement of financial position under "long-term receivables" or "trade and other payables" respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

(i) Gross amounts due from a customer for contract work amounting to RMB324,862,000 which was previously included in long-term receivables is now included under contract assets; and

(ii) "Receipts in advance" amounting to RMB1,008,532,000, which was previously included in trade and other payables is now included under contract liabilities.

(e) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

(e) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018 (Continued)

	Amounts reported in accordance with IFRS 15 (A) RMB'000	Hypothetical amounts under IASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A)-(B) RMB'000
Line items in the consolidated statement of profit or loss for year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Revenue	56,116,072	56,099,841	16,231
Cost of sales	(54,556,472)	(54,543,143)	(13,329)
Gross profit	**1,559,600**	**1,556,698**	**2,902**
Profit from operations	**3,040,597**	**3,037,695**	**2,902**
Finance costs	(697,151)	(686,656)	(10,495)
Profit/(loss) before taxation	**2,348,075**	**2,355,668**	**(7,593)**
Income tax	(1,074,168)	(1,076,067)	1,899
Profit for the year	**1,273,907**	**1,279,601**	**(5,694)**
Profit/(loss) attributable to equity shareholders of the Company	**1,371,304**	**1,376,980**	**(5,676)**
Loss attributable to non-controlling interests	(97,397)	(97,379)	(18)
Earnings per share (RMB cents)			
Basic	11.76	11.80	(0.04)
Diluted	11.75	11.80	(0.05)
Line items in the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Total comprehensive income for the year	**1,251,219**	**1,256,913**	**(5,694)**
Total comprehensive income attributable to the equity shareholders of the Company	**1,350,993**	**1,356,669**	**(5,676)**
Total comprehensive income attributable to non-controlling interests	**(99,774)**	**(99,756)**	**(18)**
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
Inventories and other contract costs	6,277,105	6,268,148	8,957
Total current assets	**24,260,340**	**24,251,383**	**8,957**
Long-term receivables	–	329,876	(329,876)
Contract assets	329,876	–	329,876
Deferred tax assets	211,047	204,171	6,876
Total non-current assets	**28,820,778**	**28,813,902**	**6,876**
Trade and other payables	11,006,540	12,805,797	(1,799,257)
Contract liabilities	1,835,718	–	1,835,718
Total current liabilities	**23,654,563**	**23,618,102**	**36,461**
Net current assets	**605,777**	**633,281**	**(27,504)**
Total assets less current liabilities	**29,426,555**	**29,447,183**	**(20,628)**
Net assets	**19,608,813**	**19,629,441**	**(20,628)**
Reserves	18,747,155	18,767,783	(20,628)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, Revenue from contracts with customers (Continued)

(e) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018 (Continued)

	Amounts reported in accordance with IFRS 15 (A) RMB'000	Hypothetical amounts under IASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A)-(B) RMB'000
Total equity attributable to equity shareholders of the Company	18,779,592	18,800,156	(20,564)
Non-controlling interests	829,221	829,285	(64)
Total equity	19,608,813	19,629,441	(20,628)
Line items in the reconciliation of profit before taxation to cash used in operations for year ended 31 December 2018 (note 23(b)) impacted by the adoption of IFRS 15:			
Profit before taxation	2,348,075	2,355,668	(7,593)
Increase in inventories and other contract costs	(422,409)	(432,309)	9,900
Increase in contract assets	(5,014)	–	(5,014)
Increase in long-term receivables	–	(5,014)	5,014
Increase in trade and other payables	372,050	1,104,706	(732,656)
Increase in contract liabilities	730,349	–	730,349

The significant differences arise as a result of the changes in accounting policies described above.

(iii) IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. The consideration transferred in the acquisition is generally measured at fair value. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(r) or 1(s), depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(m)(iii)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (m)(iii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 1(m)(iii)).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquire; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)(iii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other investments in debt and equity securities

The Group's policies for investments in equity securities and investment in wealth management products and trust products, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 30(f). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(y)(vi)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(y)(v).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other investments in debt and equity securities (Continued)

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 1(m)(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 1(y)(v) and 1(y)(vi), respectively. When the investments were derecognised or impaired (see note 1(m)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.

(h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(y)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(l)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(l).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(aa)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings situated on leasehold land are depreciated over the shorter of the unexpired terms of lease and their estimated useful lives, being no more than 50 years after the date of completion

Motor vehicles	3-10 years
Furniture, office equipment and others	3-8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Transfers from property, plant and equipment to investment properties shall be made when, and only when, there is a change in use, evidenced by end of owner-occupation. If an owner-occupied property becomes an investment property that will be carried at fair value, any difference at the date of the change in use between the carrying amount of the property and its fair value is recognised as a revaluation of property, plant and equipment, even if the property was previously measured using the cost model. Any existing or arising revaluation surplus previously recognised in other comprehensive income ("OCI") is not transferred to profit or loss at the date of transfer or on subsequent disposal of the investment property.

(k) Intangible asset (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)(iii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– unfinished contracts	2 years
– software	3-10 years
– favorable contracts	2.5 years
– customer relationship	20 years
– trademark	8 years

Both the period and method of amortisation are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible asset (other than goodwill) (Continued)

Trademark with indefinite useful lives is not amortised. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of a investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(i)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(i)), or property under development for sales or completed property held for sale (see note 1(n)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

A. Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, fixed deposits with banks with original maturity over three months, pledged bank deposits, trade and other receivables and amounts due from related parties);

– contract assets as defined in IFRS 15 (see note 1(o));

– lease receivables; and

– financial guarantee contracts issued.

Financial assets measured at fair value, including equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

A. Policy applicable from 1 January 2018 (Continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade debtors, lease receivables (included in "trade debtors and bills receivables") and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For loans and factoring receivables and all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

A. Policy applicable from 1 January 2018 (Continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 1(y)(vi) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

B. Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

B. Policy applicable prior to 1 January 2018 (Continued)

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued (see note 1(y)(viii)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(ii) Credit losses from financial guarantees issued (Continued)

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(m)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– goodwill; and

– investment in subsidiaries, associates and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting,* in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Inventories and other contract cost

Inventories are assets which are held for sale in the ordinary course of business and are carried at the lower of cost and net realisable value as follows:

– Supply chain management and trading

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

– Property development

Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 1(aa)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for sale

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group which comprise of multiple units which are sold individually, the cost of each unit is determined by apportionment of the total development costs for that development project to each unit on a per square foot basis, unless another basis is more representative of the cost of the specific unit. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(y)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(m)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(p)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(y)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(p)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(y)).

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "long-term receivables" or "trade and other payables" respectively on a contract-by-contract basis. These balances have been reclassified on 1 January 2018 as shown in note 20 (see note 1(c)(ii)).

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(o)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(m)(i)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(m)(i).

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(m)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Convertible redeemable preference share

Convertible redeemable preference shares issued by a subsidiary of the Group are redeemable upon occurrence of certain future events and at the option of the holders. This instrument can be converted into ordinary shares of the subsidiary at any time at the option of the holders or automatically converted into ordinary shares upon occurrence of an initial public offering of the subsidiary or agreed by majority of the holders.

The Group designated the convertible redeemable preference shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in the consolidated statement of profit or loss.

Subsequent to initial recognition, the convertible redeemable preference shares are carried at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

The convertible redeemable preference shares are classified as non-current liabilities because the Group has unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(t) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing cost (see note 1(aa)).

(u) Employee benefits

Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(v) Share-based payments

Equity-settled share-based payment transaction with employee

The fair value of share options or shares granted to eligible persons is recognised as an expense with a corresponding increase in share-based payment reserve within equity. The fair value is measured at grant date using the binomial lattice model, Asian put option Pricing model or market price taking into account the terms and conditions (including lock up period) upon which the options and shares were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options or shares, the total estimated fair value of the options or shares is spread over the vesting period, taking into account the probability that the options or the shares will vest.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Share-based payments (Continued)

During the vesting period, the number of share options or shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options or shares that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

Equity-settled share-based payment transaction with non-employee

For equity-settled share-based payment transaction with parties other than employees, the fair value of shares granted for services received is recognised as an expense with a corresponding increase in share-based payment reserve within equity when service are received. The fair value of the equity-settled share-based payment transaction with non-employee is measured with reference to the fair value of the equity instruments granted.

(w) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(y) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products, that is when the goods ownership transfer certificate is issued to customers, goods are picked up at the third parties' premises or goods are delivered at the customers' premises.

Revenue for sales of goods was recognised on a similar basis in the comparative period under IAS 18.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Revenue and other income (Continued)

(ii) Sale of properties

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when the property is accepted by the customer, or deemed as accepted according to the contract, whichever is earlier, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (see note 1(o)).

It is common for the Group to receive payments in advance of revenue recognition in the Group's sales of properties when properties are marketed by the Group while the property is still under construction. In such cases, if the advance payments are regarded as providing a significant financing benefit to the Group, interest expense arising from the adjustment of time value of money will be accrued by the Group during the period between the payment date and the revenue recognition date. This accrual increases the balance of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under IAS 23, *Borrowing costs*, in accordance with the policies set out in note 1(aa).

In the comparative period, revenue from sales of properties was recognised when the construction of relevant properties has been completed and the properties have been delivered to the buyers, which was taken to be the point in time when the risks and rewards of ownership of the property had passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition were included in the statement of financial position under trade and other payables and no interest expense was accrued on payments received in advance. As a result of the change in accounting policy for accruing interest on payments in advance, adjustments have been made to opening balances as at 1 January 2018 (see note 1(c)(ii)).

(iii) Construction contracts

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on real estate assets under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised.

Revenue for construction contracts was recognised on a similar basis in the comparative period under IAS 11.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Revenue and other income (Continued)

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(m)(i)).

(vii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised in profit or loss on a systematic basis over the useful life of the asset.

(viii) Income from financial guarantees issued

Income from financial guarantees issued is recognised over the term of the guarantees (see note 1(m)(ii)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(aa) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(bb) Related parties

(a) A person, or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint venture of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(cc) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Notes 10, 13, 27 and 30 contain information about the assumptions and their risk factors relating to the valuation of investment properties, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Net realisable value of properties under development for sale and completed properties held for sale

As explained in note 1(n), the Group's properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling price, the costs of completion in cases for properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in provision for properties held for sale. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the volatility of the property market in PRC and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the end of the reporting period. Any increase or decrease in the provision would affect profit or loss in future years.

(b) Provision for PRC Land Appreciation Tax ("LAT")

As explained in note 6(a)(iv), LAT is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing cost and relevant property development expenditures. Given the uncertainties of the calculation basis of land appreciation tax to be interpreted by the local tax bureau and the actual appreciation of land value may be different from the original estimates, the actual outcomes may be higher or lower than that estimated at the end of the reporting period. Any increase or decrease in estimates would affect profit or loss in future years.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the ECLs. This requires the use of estimates and judgements. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

Trade debtors and bills receivables

ECLs on trade debtors and bills receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

Loans and factoring receivables

For loans and factoring receivables, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

(d) Recognition of deferred tax assets

Deferred tax assets in respect of tax losses and other deductible temporary differences carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

(e) Recognition and allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development during construction stage and will be transferred to profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimates. Any variations on the development costs upon final settlement would impact costs of sales included in profit or loss in future years.

(f) Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after their completion, whereas, the properties are accounted for as investment properties under construction if the properties are intended to be held to earn rentals and/or for capital appreciation.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(g) Valuation of investment properties

As described in note 1(i), investment properties are stated at fair value based on the valuation performed by an independent firm of professional valuers.

In determining the fair value of investment properties, the valuers have based on a method of valuation which involves, inter alia, certain estimates including current market rents and market price for similar properties in the same location, and condition, appropriate discount rates and expected future market rents.

In relying on the valuation report, management has exercised their judgement and is satisfied that the method of valuation is reflective of the current market conditions.

(h) Determining the deferred taxation on investment properties

The Group has leased out certain of the completed properties to third parties whereby the directors consider that such arrangement is not temporary. In the circumstance, the Group has decided to treat those properties as investment properties (and reclassifying them from completed properties held for sale to investment properties) because it is the Group's intention to hold these properties in long-term for rental income and/or capital appreciation.

Under IAS 12, deferred tax is required to be measured with reference to the tax consequences that would follow the manner in which the entity expects to recover the carrying amount of the assets in question. In this regard, IAS 12 has a rebuttable presumption that the carrying amount of investment property carried at fair value under IAS 40, *Investment property,* will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

In this connection, the Group has reviewed its investment property portfolio on a regular basis and has concluded that as at 31 December 2018, the Group has determined that each of these properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and consequently the presumption in IAS 12 is rebutted for these properties. As a result, the Group has continued to measure the deferred tax relating to these other properties using the tax rate that would apply as a result of recovering their value through use.

(i) Impairment of non-current assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset by reference to value in use and fair value less costs of disposal. Value in use is determined using the discounted cash flow method. Due to inherent risk associated with estimations in the timing and magnitude of the future cash flows, the estimated recoverable amount of the assets may be different from its actual recoverable amount and the Group's profit or loss could be affected by the accuracy of the estimations. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years.

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually even if there is no indication of impairment.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are developing and operating of large-scale consumer product-focused wholesale shopping malls, and providing supply chain management and trading business, e-commerce services, financial services, warehousing and logistics services for the online and offline customers in PRC. Further details regarding the Group's principal activities are disclosed in note 3(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 RMB'000	2017 (Note) RMB'000
Revenue from contracts with customers within the scope of IFRS 15:		
Disaggregated by major products or service lines		
– Revenue from sales of properties and related services	682,848	759,540
– Revenue from supply chain management and trading business	54,089,362	20,615,283
– Revenue from E-commerce and financial services business	106,055	118,648
– Revenue from construction contracts	5,014	30,896
– Others	31,340	43,280
	54,914,619	21,567,647
Revenue from other sources		
Gross rentals from investment properties	884,248	486,293
Financing income	317,205	195,236
	56,116,072	22,249,176

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see note 1(c)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 3(b)(i) and 3(b)(iii) respectively.

The Group's customer base is diversified and the Group does not have any single customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2018 (2017: Nil). Detail of credit risk are set out in note 30(a).

3 REVENUE AND SEGMENT REPORTING (Continued)

(a) Revenue (Continued)

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB857,754,000. This amount represents revenue expected to be recognised in the future from precompletion sales contracts for properties under development and construction contracts entered into by the customers with the Group. This amount includes the interest component of pre-completion properties sales contracts under which the Group obtains significant financing benefits from the customers (see note 1(y)(ii)). The Group will recognise the expected revenue in future when or as the work is completed or, in the case of the properties under development for sale, when the property is accepted by the customer or deemed as accepted according to the contract (whichever is earlier), which is expected to occur over the next 1 to 24 months.

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts for goods, such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an original expected duration of one year or less.

(iii) Total future minimum lease payments receivable by the Group

The future minimum lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	958,498	994,404
After 1 year but within 5 years	2,579,784	2,676,866
After 5 years	2,372,055	2,241,031
	5,910,337	5,912,301

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by mixture of both business lines (product and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Property development and related services: this segment develops, sells and operates large-scale consumer product-focus wholesale shopping malls and provides related value-added business, such as warehousing and logistics.

– E-commerce and financial services: this segment provides financial services including supply chain finance, guarantees, financial leasing, factoring and assets management.

– Supply chain management and trading: this segment operates trading of agricultural products, chemical materials, plastic raw materials, consumer goods, black and non-ferrous metals, etc., also provides trading related supply chain finance services.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates and joint ventures, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is the profit before finance costs, income tax, and are further adjusted for items not specifically attributed to individual segments, such as share of profits or losses of joint ventures and associates, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances, borrowings and derivative managed directly by the segments and depreciation to non-current segment assets used by the segments in their operations.

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	Property development and related services		E-commerce and financial services		Supply chain management and trading		Total	
	2018	2017 (Note)	2018	2017 (Note)	2018	2017 (Note)	2018	2017 (Note)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disaggregation by timing of revenue recognition								
Point in time	613,637	675,541	106,055	118,648	54,089,362	20,615,283	54,809,054	21,409,472
Over time	958,473	601,188	58,285	80,330	258,920	114,906	1,275,678	796,424
Revenue from external customers	1,572,110	1,276,729	164,340	198,978	54,348,282	20,730,189	56,084,732	22,205,896
Inter-segment revenue	–	–	–	–	–	–	–	–
Reportable segment revenue	1,572,110	1,276,729	164,340	198,978	54,348,282	20,730,189	56,084,732	22,205,896
Reportable segment profit/(loss)	626,544	458,218	(98,032)	(2,370)	(67,680)	(47,299)	460,832	408,549
Impairment loss on intangible assets	–	–	–	–	(152,824)	–	(152,824)	–
Impairment loss on goodwill	–	–	–	–	(461,028)	–	(461,028)	–
Net valuation gain on investment properties	3,865,192	3,021,326	–	–	–	–	3,865,192	3,021,326
Finance income	61,620	38,502	393	154	140,143	49,922	202,156	88,578
Finance costs	(300,825)	(329,479)	(3,846)	(17,676)	(305,883)	(153,350)	(610,554)	(500,505)
Depreciation and amortisation	(12,190)	(10,912)	(1,671)	(1,205)	(57,798)	(18,925)	(71,659)	(31,042)
Share of net losses of associates	(169)	(2,367)	(164,108)	(29,818)	(8,596)	(3,865)	(172,873)	(36,050)
Share of net (losses)/profits of joint ventures	(2,694)	(64)	–	–	351	791	(2,343)	727
Impairment loss on investment in an associate	–	–	(26,155)	–	–	–	(26,155)	–
Reportable segment assets	32,240,057	29,919,335	630,189	1,504,126	10,549,379	10,126,116	43,419,625	41,549,577
Additions to non-current segment assets during the year	13,203	19,224	157,423	20,032	231,919	2,655,475	402,545	2,694,731
Reportable segment liabilities	11,872,360	13,365,516	2,177,283	2,903,038	14,050,893	10,094,269	28,100,536	26,362,823

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see note 1(c)(ii)).

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Revenue

	2018 RMB'000	2017 RMB'000
Reportable segment revenue	56,084,732	22,205,896
Other revenue	31,340	43,280
Consolidated revenue (note 3(a))	56,116,072	22,249,176

Profit

	2018 RMB'000	2017 RMB'000
Reportable segment profit derived from the Group's external customers	460,832	408,549
Other net loss	(530,495)	(39,900)
Impairment loss on intangible assets	(152,824)	–
Impairment loss on goodwill	(461,028)	–
Net valuation gain on investment properties	3,865,192	3,021,326
Finance income	206,000	89,001
Finance costs	(697,151)	(534,360)
Share of net losses of associates	(172,873)	(36,050)
Share of net (losses)/profits of joint ventures	(2,343)	727
Impairment loss on investment in an associate	(26,155)	–
Unallocated head office and corporate expenses	(141,080)	(105,672)
Consolidated profit before taxation	2,348,075	2,803,621

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (Continued)

Assets

	2018 RMB'000	2017 RMB'000
Reportable segment assets	43,419,625	41,549,577
Elimination of inter-segment receivables	(2,368,101)	(5,012,798)
	41,051,524	36,536,779
Interests in joint ventures	25,519	114,387
Interests in associates	467,588	490,586
Financial assets at fair value through profit or loss	4,785,355	5,074,617
Deferred tax assets	211,047	67,997
Prepaid taxes	12,017	16,025
Unallocated head office and corporate assets	6,528,068	5,043,237
Consolidated total assets	53,081,118	47,343,628

Liabilities

	2018 RMB'000	2017 RMB'000
Reportable segment liabilities	28,100,536	26,362,823
Elimination of inter-segment payables	(2,328,968)	(4,981,505)
	25,771,568	21,381,318
Current taxation	452,480	284,652
Deferred tax liabilities	4,785,009	3,845,747
Unallocated head office and corporate liabilities	2,463,248	3,171,024
Consolidated total liabilities	33,472,305	28,682,741

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment property, other property, plant and equipment, intangible assets, goodwill, interest in associates and joint ventures ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interest in an associates and joint ventures.

	Revenue from external customers		Specified non-current assets	
	2018 RMB'000	2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000
PRC	55,294,887	22,249,176	28,268,170	23,534,123
Singapore	821,185	–	2,983	–
	56,116,072	22,249,176	28,271,153	23,534,123

The analysis above includes property rental income from external customers in Mainland China of RMB884,248,000 (2017: RMB486,293,000).

4 OTHER NET LOSS

	2018 RMB'000	2017 RMB'000
Net fair value changes on financial instruments at fair value through profit or loss		
– listed equity securities	(879,148)	(135,533)
– wealth management products and trust products	101,498	90,289
– derivative financial instruments	23	(5,078)
– contingent consideration (notes 18(ii) and 18(iii))	251,298	(13,977)
– convertible redeemable preference shares of a subsidiary (note 18(iv))	14,049	–
Loss on disposal of listed equity securities	(80,274)	–
Government subsidies	37,959	8,006
Dividends received from financial assets at fair value through profit or loss	10,922	10,207
Others	13,178	6,186
	(530,495)	(39,900)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after (crediting)/charging:

(a) Finance (income)/costs

	2018 RMB'000	2017 RMB'000
Finance income		
Interest income	(206,000)	(89,001)
Finance costs		
Interest on interest-bearing borrowings	793,701	704,326
Other borrowing costs	12,177	88,872
Less: Amounts capitalised into properties under development and investment properties under development (Note)	(261,010)	(363,805)
	544,868	429,393
Bank charges and others	153,428	107,043
Net foreign exchange gain	(1,145)	(2,076)
	697,151	534,360

Note: The borrowing costs have been capitalised at rates ranging from 4.75%-13.00% per annum for the year ended 31 December 2018 (2017: 2.50%-13.00%).

(b) Staff costs

	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	258,695	163,370
Contributions to defined contribution retirement plan	24,728	15,600
Equity-settled share-based payment expenses (note 27)	72,056	65,259
	355,479	244,229

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items

	2018 RMB'000	2017 (Note) RMB'000
Amortisation		
– intangible assets (note 12)	60,557	28,437
Depreciation (note 11)	38,959	22,873
Impairment losses		
– trade debtors and bill receivables	187,878	5,401
– loans and factoring receivables	77,544	15,156
Auditors' remuneration		
– audit services	4,900	3,400
– other services	–	4,020
Operating lease charges	44,934	40,341
Rentals receivable from investment properties less direct outgoings of RMB2,639,000 (2017: RMB3,846,000)	738,249	248,630
Cost of construction contracts	5,014	30,896
Cost of commodities sold (note 19(c))	53,779,019	20,467,478
Cost of properties sold (note 19(b))	382,542	465,418

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 RMB'000	2017 RMB'000
Current tax		
PRC Corporate Income Tax ("PRC CIT")	145,166	50,570
PRC Land Appreciate Tax ("PRC LAT")	60,795	41,417
	205,961	91,987
Deferred tax		
Origination and reversal of temporary differences (note 28(b))	868,207	355,152
	1,074,168	447,139

(i) Pursuant to the rules and regulations of Cayman Islands, the Company is not subject to any income tax in Cayman Islands. Also, certain subsidiaries located in British Virgin Islands ("BVI") are not subject to any income tax in their local jurisdictions.

(ii) No provision for Hong Kong Profits Tax or Singapore Corporate Income Tax as the Group did not earn any assessable income subject to Hong Kong Profits Tax or Singapore Corporate Income Tax during the years ended 31 December 2018 and 2017.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(a) Taxation in the consolidated statement of profit or loss represents: (Continued)

(iii) Pursuant to the rules and regulations applicable to encouraged industries in the PRC western development strategy, one subsidiary of the Group, GSMN Logistics Co., Ltd., is subject to PRC CIT at a preferential tax rate of 15% for the year ended 31 December 2018, and one subsidiary of the Group, Guangxi Sugar Market Network Co., Ltd., is subject to PRC CIT at a preferential tax rate of 9% for the year ended 31 December 2018. Pursuant to the rules and regulations applicable to advanced technology enterprises of the PRC, one subsidiary of the Group, Shenzhen AP88.com Agriculture Information Technology Limited, is subject to PRC CIT at a preferential tax rate of 15%.The application of preferential tax rate will be reviewed by the tax authority annually.

All the other PRC subsidiaries of the Group are subject to income tax at 25% for the year ended 31 December 2018 under the PRC Corporate Income Tax Law which was enacted on 16 March 2007.

(iv) PRC LAT which is levied on properties developed for sale by the Group in the PRC, at progressive rates ranging from 30% to 60% on the appreciation value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing costs and all qualified property development expenditures. Deferred tax assets arising from PRC LAT accrued are calculated based on the applicable income tax rates when they are expected to be cleared.

In addition, certain subsidiaries of the Group were subject to PRC LAT which is calculated based on 8% of their revenue in accordance with the authorised tax valuation method approved by respective local tax bureau.

The directors of the Company are of the opinion that the authorised tax valuation method is one of the allowable taxation methods in the PRC and the respective local tax bureaus are the competent tax authorities to approve the authorised tax valuation method in charging PRC LAT to the respective PRC subsidiaries of the Group, and the risk of being challenged by the State Tax Bureau or any tax bureau of higher authority is remote.

(v) According to the PRC Corporate Income Tax Law and its implementation regulations, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company.

The provision of the related deferred tax liabilities, if any, are based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008. Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of the retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2018 RMB'000	2017 RMB'000
Profit before taxation	2,348,075	2,803,621
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	942,816	779,668
Tax effect of non-deductible expenses	19,348	18,462
Tax effect of non-taxable share of net losses of joint ventures and associates	5,350	1,700
Tax effect of non-taxable net income	(1,744)	(368)
Tax effect of unused tax losses not recognised	78,409	35,535
Tax effect of recognition of previously unused tax losses	(1,068)	–
Utilisation of previously unrecognised tax losses	(14,335)	(23,781)
PRC LAT in relation to properties sold	60,522	41,417
PRC LAT in relation to investment properties	–	(526,853)
Tax effect on PRC LAT	(15,130)	121,359
Actual tax expense	1,074,168	447,139

7 DIRECTORS' EMOLUMENTS

Directors' emoluments are as follows:

	For the year ended 31 December 2018					
	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Equity-settled share-based payment (Note) RMB'000	Total RMB'000
Co-Chairman and executive directors:						
Mr. Yan Zhi	1,122	366	21	1,509	–	1,509
Dr. Gang Yu	1,200	–	–	1,200	–	1,200
Executive directors:						
Mr. Wei Zhe	1,200	–	–	1,200	18,360	19,560
Mr. Qi Zhiping (appointed on 6 July 2018)	293	485	–	778	387	1,165
Mr. Cui Jinfeng	421	251	28	700	–	700
Mr. Peng Chi (resigned on 6 July 2018)	135	–	–	135	–	135
Independent non-executive directors:						
Mr. Cheung Kai Fai	263	–	–	263	–	263
Mr. Wu Ying	420	–	–	420	–	420
Mr. Zhu Zhengfu	420	–	–	420	–	420
	5,474	1,102	49	6,625	18,747	25,372

7 DIRECTORS' EMOLUMENTS (Continued)

	For the year ended 31 December 2017					
	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Equity-settled share-based payment (Note) RMB'000	Total RMB'000
Co-Chairman and executive directors:						
Mr. Yan Zhi	1,070	–	16	1,086	–	1,086
Dr. Gang Yu	1,200	–	–	1,200	–	1,200
Executive directors:						
Mr. Wei Zhe (re-designated on 28 June 2017)	807	–	–	807	12,947	13,754
Mr. Cui Jinfeng	401	–	16	417	–	417
Mr. Wang Chuang (resigned on 11 April 2017)	112	–	–	112	–	112
Mr. Peng Chi	251	–	–	251	–	251
Independent non-executive directors:						
Mr. Cheung Kai Fai	251	–	–	251	–	251
Mr. Wu Ying	401	–	–	401	–	401
Mr. Zhu Zhengfu (appointed on 10 March 2017)	325	–	–	325	–	325
	4,818	–	32	4,850	12,947	17,797

Note: These represent the estimated value of share options and share award granted to the directors under the Company's Share Option and Management Shares Award Scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(v).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 27.

During the year, no amount was paid or payable by the Group to the directors or any of the 5 highest paid individuals set out in note 8 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2017: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2017: two) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	3,512	2,521
Retirement scheme contributions	97	30
	3,609	2,551

The emoluments of two (2017: two) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HKD2,000,001-2,500,000	1	1
HKD1,000,001-2,000,000	1	–
HKD500,001-1,000,000	–	1

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB1,367,182,000 (2017: RMB2,379,035,000) and the weighted average of 11,628,038,000 ordinary shares (2017: 11,204,144,000) in issue during the year, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (basic)

	2018 RMB'000	2017 RMB'000
Profit attributable to ordinary equity shareholders of the Company	1,371,304	2,379,077
Less: profit attributable to issued ordinary shares for Incentive Shares	(661)	–
profit attributable to issued ordinary shares for VKC Consultancy Service Consideration Shares	(2,639)	–
profit attributable to issued ordinary shares for Management Shares Award Scheme	(822)	(42)
Profit attributable to ordinary equity shareholders of the Company (basic)	1,367,182	2,379,035

(ii) Weighted average number of ordinary shares (basic)

	2018 '000	2017 '000
Issued ordinary shares at 1 January	11,628,005	10,745,578
Effect of shares issued under Management Shares Award Scheme but not yet vested in 2017	(8,059)	–
Effect of placing of new shares	–	194,269
Effect of issuance of new shares as consideration of acquisition of subsidiaries	–	264,297
Effect of vested Incentive Shares	1,401	–
Effect of vested VKC Consultancy Service Consideration Shares	5,605	–
Effect of vested shares under Management Shares Award Scheme	1,086	–
Weighted average number of ordinary shares at 31 December	11,628,038	11,204,144

9 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB1,370,482,000 (2017: RMB2,379,035,000) and the weighted average number of ordinary shares of 11,665,335,000 shares (2017: 11,206,627,000) in issue during the year, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2018 RMB'000	2017 RMB'000
Profit attributable to ordinary equity shareholders of the Company (basic)	1,367,182	2,379,035
Add: profit attributable to issued ordinary shares for Incentive Shares	661	–
profit attributable to issued ordinary shares for VKC Consultancy Service Consideration Shares	2,639	–
Profit attributable to ordinary equity shareholders of the Company (diluted)	1,370,482	2,379,035

(ii) Weighted average number of ordinary shares (diluted)

	2018 '000	2017 '000
Weighted average number of ordinary shares at 31 December (basic)	11,628,038	11,204,144
Effect of deemed issue of Incentive Shares	7,667	2,483
Effect of deemed issue of VKC Consultancy Service Consideration Shares	29,630	–
Weighted average number of ordinary shares at 31 December (diluted)	11,665,335	11,206,627

10 INVESTMENT PROPERTIES

(a) Reconciliation of carrying amount

	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
At 1 January 2017	11,382,310	3,241,745	14,624,055
Additions	34,361	216,029	250,390
Transfer from completed properties held for sale (Note)	2,158,262	–	2,158,262
Transfer from non-current assets classified as held for sale	152,705	–	152,705
Fair value adjustments	3,009,659	11,667	3,021,326
At 31 December 2017	16,737,297	3,469,441	20,206,738
Representing:			
Cost	6,826,943	1,560,464	8,387,407
Fair value adjustments	9,910,354	1,908,977	11,819,331
	16,737,297	3,469,441	20,206,738
At 1 January 2018	16,737,297	3,469,441	20,206,738
Additions	37,574	205,447	243,021
Transfer from completed properties held for sale (Note)	1,141,448	–	1,141,448
Fair value adjustments	3,697,611	167,581	3,865,192
At 31 December 2018	21,613,930	3,842,469	25,456,399
Representing:			
Cost	8,005,965	1,765,911	9,771,876
Fair value adjustments	13,607,965	2,076,558	15,684,523
	21,613,930	3,842,469	25,456,399
Book value:			
At 31 December 2018	21,613,930	3,842,469	25,456,399
At 31 December 2017	16,737,297	3,469,441	20,206,738

Note: During the year ended 31 December 2018, the Group transferred certain completed properties held for sale to investment properties when there was an actual change in use from sale to earning rental income purpose, which were evidenced by commencement of operating lease as stipulated in the lease agreements entered into by the Group. Correspondingly, a fair value gain in profit or loss of RMB3,971,127,000 (2017: RMB3,020,140,000) upon transfer was recognised.

As at 31 December 2018, the Group's investment properties and investment properties under development with an aggregated carrying value of RMB18,991,425,000 (2017: RMB13,887,495,000) were pledged as collateral for the Group's bank loans (note 25(a)).

The Group's investment properties are held under medium-term lease in the PRC.

10 INVESTMENT PROPERTIES (Continued)

(b) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value as at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into level 3 RMB'000
Recurring fair value measurement		
– investment properties	25,456,399	25,456,399

	Fair value as at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into level 3 RMB'000
Recurring fair value measurement		
– investment properties	20,206,738	20,206,738

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2018. The valuations were carried out by an independent firm of surveyors, Jones Lang Lasalle Corporate Appraisal and Advisory Limited ("JLL"), who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

(Expressed in Renminbi unless otherwise indicated)

10 INVESTMENT PROPERTIES (Continued)

(b) Fair value measurement of properties (Continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Completed investment properties	Income capitalisation method	Term Yield	4.5% (2017: 4.0%-5.5%)
		Reversion Yield	50% (2017: 50%)
		Market monthly rental rate (RMB/sqm.)	35-122 (2017: 37-121)
		Occupancy rate	90%-95% (2017: 90%-95%)
Investment properties under development	Residual approach	Term Yield	4.5%-5.5% (2017: 4.5%-5.5%)
		Reversion Yield	5.0%-6.0% (2017: 5.5%-6.0%)
		Market monthly rental rate (RMB/sqm.)	35-65 (2017: 15-76)
		Occupancy rate	0%-95% (2017: 0%-98%)

The fair value of completed investment properties is generally derived using the income capitalisation method. This valuation method is based on the capitalisation of the income and reversionary potential income by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings within the subject properties and the estimated rental incremental observed in other comparable properties.

The fair value of investment properties under development is generally derived using the residual method assuming that it is newly completed in accordance with the development proposal in term of property use, respective saleable areas and construction schedule to establish the gross development value ("GDV") of the property. The total unexpended costs of the development including construction costs, professional fees and other associated expenditure, together with an allowance for interest expenses, and developer's profits are estimated and deducted. The resultant residual figures are then adjusted back to the valuation date to arrive at the fair value of the property concerned in its existing state.

Fair value adjustment of investment properties is recognised in the line of item "net valuation gain on investment properties" on the face of the consolidated statement of profit or loss.

(c) Investment properties leased out under operating leases

The Group leases out its investment properties under operating leases. The leases for most of the properties typically run for an initial period of 1 to 20 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every 1 to 3 years to reflect market rentals. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

11 PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings RMB'000	Motor vehicles RMB'000	Furniture, office equipment and others RMB'000	Total RMB'000
Cost:				
At 1 January 2017	139,931	17,774	19,596	177,301
Additions	14,612	325	7,380	22,317
Addition through acquisition of subsidiaries	93,269	6,676	79,178	179,123
Disposals	–	(705)	(4,628)	(5,333)
At 31 December 2017/1 January 2018	247,812	24,070	101,526	373,408
Additions	135,211	5,268	11,492	151,971
Addition through acquisition of subsidiaries (note 34)	–	673	1,407	2,080
Disposals	(17,238)	(349)	(757)	(18,344)
At 31 December 2018	365,785	29,662	113,668	509,115
Accumulated depreciation:				
At 1 January 2017	33,221	16,611	13,654	63,486
Charge for the year	11,985	1,541	9,329	22,855
Addition through acquisition of subsidiaries	25,612	4,967	43,647	74,226
Written back on disposals	–	(664)	(3,476)	(4,140)
At 31 December 2017/1 January 2018	70,818	22,455	63,154	156,427
Charge for the year	24,204	3,617	11,138	38,959
Addition through acquisition of subsidiaries (note 34)	–	521	1,151	1,672
Written back on disposals	(1,332)	(333)	(578)	(2,243)
At 31 December 2018	93,690	26,260	74,865	194,815
Net book value:				
At 31 December 2018	272,095	3,402	38,803	314,300
At 31 December 2017	176,994	1,615	38,372	216,981

All the buildings owned by the Group are located in the PRC on land under medium term leases.

The ownership certificates for certain buildings with net book value of RMB15,145,000 (2017: RMB17,723,000) have not been obtained. The directors are of the opinion that the Group are entitled to lawfully and validly occupy and use of the above mentioned buildings.

As at 31 December 2018, the Group's buildings with carrying value of RMB248,394,000 (2017: RMB15,960,000) were pledged as collateral for the Group's bank loans (note 25(a)).

12 INTANGIBLE ASSETS

	Unfinished contracts RMB'000	Software RMB'000	Favourable contracts RMB'000	Customer relationship RMB'000	Trademark RMB'000	Total RMB'000
Cost:						
At 1 January 2017	8,879	7,169	–	–	–	16,048
Additions	–	12,043	–	–	–	12,043
Addition from acquisition of subsidiaries	–	36,062	23,100	703,700	173,400	936,262
Disposals	–	(98)	–	–	–	(98)
At 31 December 2017	8,879	55,176	23,100	703,700	173,400	964,255
At 1 January 2018	8,879	55,176	23,100	703,700	173,400	964,255
Additions	–	28,846	–	–	–	28,846
Addition from acquisition of subsidiaries (note 34)	–	6,787	–	34,000	2,790	43,577
Disposals	–	(4,480)	–	–	–	(4,480)
At 31 December 2018	8,879	86,329	23,100	737,700	176,190	1,032,198
Accumulated amortisation:						
At 1 January 2017	6,517	840	–	–	–	7,357
Addition from acquisition of subsidiaries	–	26,435	–	2,875	–	29,310
Charge for the year	2,348	9,626	4,620	11,843	–	28,437
At 31 December 2017	8,865	36,901	4,620	14,718	–	65,104
At 1 January 2018	8,865	36,901	4,620	14,718	–	65,104
Addition from acquisition of subsidiaries (note 34)	–	1,206	–	–	–	1,206
Charge for the year	14	1,535	9,240	49,477	291	60,557
Disposals	–	(2,798)	–	–	–	(2,798)
At 31 December 2018	8,879	36,844	13,860	64,195	291	124,069
Accumulated impairment losses:						
At 1 January 2017, 31 December 2017 and 1 January 2018	–	–	–	–	–	–
Impairment loss	–	–	–	99,735	53,089	152,824
At 31 December 2018	–	–	–	99,735	53,089	152,824
Net book value:						
At 31 December 2018	–	49,485	9,240	573,770	122,810	755,305
At 31 December 2017	14	18,275	18,480	688,982	173,400	899,151

12 INTANGIBLE ASSETS (Continued)

The amortisation charge for the year is included in "administrative and other expenses" in the consolidated statement of profit or loss.

Included in the carrying amount of customer relationship and trademark as at 31 December 2018 is an amount of RMB703,700,000 and RMB173,400,000, respectively, allocated to CGU – Shenzhen Sinoagri a business operation engaged in business of supply chain management and trading of agriculture products.

An impairment test has been carried out for the Shenzhen Sinoagri's trademark which has indefinite useful life. The recoverable amount of trademark was estimated through the application of an income approach technique known as relief from royalty method. Under the relief from royalty method, the value of the trademarks depends on the present worth of future economic benefits to be derived from the projected royalty income, using a discount rate of 22.79% (2017: 19.51%). The growth of royalty income was projected taking into account the average growth rate of Shenzhen Sinoagri's gross profit of 16.62% (2017: 32.09%) of next 5 years and a fixed royalty rate of 4% based on the historical industry information. The growth of gross profit was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years. Royalty income beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2017: 2.6%). The growth rates used do not exceed the long-term average growth rates for the business in which the trademark related to. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The recoverable amount of trademark was estimated to be less than its carrying amount and impairment amounting RMB51,700,000 was recognised. As the trademark has been reduced to its recoverable amount of RMB121,700,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

As a result of the recognition of the impairment loss for the Shenzhen Sinoagri's trademark, management considered that there was an indication of impairment for Shenzhen Sinoagri's customer relationship and carried out an impairment test. The recoverable amount of customer relationship was estimated based on the application of an income approach technique known as the multi-period excess earning method. In the application of this method, the forecast cash flow are discounted and adjusted into present worth to reflect all risks including intrinsic and extrinsic uncertainties in relation to the customer relationship. The growth of forecast cash flow in relation to the customer relationship was projected taking into account the average growth rate of Shenzhen Sinoagri's gross profit of 16.62% (2017: 32.09%) of next 5 years and an annual customer attrition rate of 17% based on historical data from internal sources. The growth of gross profit was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years. The gross profit projected beyond the five-year period to 18 years are using an estimated growth rate of 3% (2017: 2.6%). The growth rates used do not exceed the long-term average growth rates for the business in which the customer relationship related to. The cash flows are discounted using a pre-tax discount rate of 29.96%. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The recoverable amount of customer relationship was estimated to be less than its carrying amount and impairment amounting to RMB99,735,000 was recognised.

13 GOODWILL

	RMB'000
Cost:	
At 1 January 2017	15,783
Additions through business combination	1,590,497
At 31 December 2017/1 January 2018	1,606,280
Additions through business combination (note 34)	106,797
Disposal of subsidiaries	(7)
At 31 December 2018	1,713,070
Accumulated impairment losses:	
At 1 January 2017, 31 December 2017 and 1 January 2018	–
Impairment loss	(461,028)
At 31 December 2018	(461,028)
Carrying amount:	
At 31 December 2017	1,606,280
At 31 December 2018	1,252,042

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to operating segment as follows.

	2018 RMB'000	2017 RMB'000
Shenzhen Sinoagri – business of supply chain management and trading of agriculture products	1,129,462	1,590,497
HSH – business of supply chain management and trading of chemical and plastic raw materials	106,797	–
E-commerce and financial services business	15,783	15,783
	1,252,042	1,606,280

The recoverable amount of the CGU – Shenzhen Sinoagri is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The average budgeted EBITDA growth rate for the five year period is 26.78% (2017: 57.90%). Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2017: 2.6%). The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 19.90% (2017: 18.25%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The impairment loss recognised during the year solely relates to the CGU – Shenzhen Sinoagri. As the CGU has been reduced to its recoverable amount of RMB3,500,000,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

(Expressed in Renminbi unless otherwise indicated)

14 INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of principal subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of subsidiaries	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Wuhan North Hankou Trade Market Investment Co., Ltd. (notes (i) and (ii)) 武漢漢口北商貿市場投資有限公司	The PRC	RMB55,000,000	100%	–	100%	Property development
Wuhan Big World Investment and Development Co., Ltd. (notes (i) and (ii)) 武漢大世界投資發展有限公司	The PRC	RMB100,000,000	100%	–	100%	Property development
Zall Development (Tianjin) Co., Ltd. (notes (i) and (ii)) 卓爾發展(天津)有限公司	The PRC	RMB1,001,000,000/ RMB442,000,000	100%	–	100%	Property development
Shenzhen Sinoagri E-commerce Co., Ltd. ("Shenzhen Sinoagri").(notes (i) and (iii)) 深圳市中農網有限公司	The PRC	RMB509,000,000	50.6%	–	50.6%	Supply chain management and trading business
Shenzhen Kunshang E-Sugar Supply Chain Co., Ltd. (notes (i) and (ii)) 深圳市昆商易糖供應鏈有限公司	The PRC	RMB80,000,000	33.63%	–	66.47%	Supply chain management and trading business
Yunnan Kunpeng Electronic Commerce & Wholesale Markets of Agricultural Products Co.,Ltd. (notes (i) and (ii)) 雲南鯤鵬農產品電子商務批發市場有限公司	The PRC	RMB40,000,000	33.63%	–	66.47%	Supply chain management and trading business
Guangxi Kangchen Shitang Trading Co., Ltd. (notes (i) and (ii)) 廣西康宸世糖貿易有限公司	The PRC	RMB10,000,000	33.63%	–	66.47%	Supply chain management and trading business
Guangxi Pintang Trading Co., Ltd. (notes (i) and (ii)) 廣西品糖貿易有限公司	The PRC	RMB36,000,000	33.63%	–	66.47%	Supply chain management and trading business
Shanghai Zall Steel E-commerce Co., Ltd. (notes (i) and (ii)) 上海卓鋼鏈電子商務有限公司	The PRC	RMB100,000,000/ RMB50,000,000	51%	–	51%	Supply chain management and trading business
Zhejiang Jiasusheng Trade Co., Ltd. (notes (i) and (ii)) 浙江嘉塑盛貿易有限公司	The PRC	RMB20,000,000	75.71%	–	100%	Supply chain management and trading business

Notes:

(i) The English translation of the companies names is for reference only. The official names of these companies are in Chinese.

(ii) These entities are domestic enterprises established in the PRC.

(iii) This entity is sino-foreign equity joint venture established in the PRC.

14 INTERESTS IN SUBSIDIARIES (Continued)

The following table lists out the information relating to Shenzhen Sinoagri and its subsidiaries, which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2018 RMB'000	2017 RMB'000
NCI percentage	49.4%	49.4%
Current assets	11,933,790	9,586,680
Non-current assets	553,710	1,120,496
Current liabilities	11,214,497	8,892,560
Non-current liabilities	124,234	263,160
Net assets	1,148,769	1,551,456
Carrying amount of NCI	790,581	852,069
Revenue	34,976,345	17,165,471
Profit for the year before amortisation of intangible assets, impairment loss on intangible assets and equity-settled share-based payment expense	53,389	24,315
Less: Expenses arisen from acquisition:		
– Amortisation of intangible assets	24,694	12,347
– Equity-settled share-based payment expense	53,586	52,312
– Impairment loss on intangible assets	151,435	–
Loss contributed to the Group's result	176,326	40,344
Total comprehensive income	(176,326)	(40,344)
Loss allocated to NCI	66,401	16,049
Dividend paid to NCI	13,302	4,242
Net cash generated from/(used in) operating activities	222,786	(563,748)
Net cash (used in)/generated from investing activities	(24,064)	155,058
Net cash generate from/(used in) financing activities	46,616	(19,017)

15 INTERESTS IN ASSOCIATES

The following list contains only the particulars of material associates:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
LightInTheBox Holding Co., Ltd. ("LightInTheBox")	Incorporated	Cayman/Overseas	134,456,369 ordinary shares of USD0.000067each	41.04%	–	41.04%	E-commerce (Note)

Note: LightInTheBox is a company incorporated under the laws of the Cayman Islands with limited liability, whose American Depositary Shares are listed on the New York Stock Exchange. LightInTheBox is a strategic partner for the Group in developing E-commence business where LightInTheBox has extensive experience.

15 INTERESTS IN ASSOCIATES (Continued)

The associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2018 RMB'000	2017 RMB'000
Gross amounts of the associate's		
Revenue	1,524,215	2,154,590
Loss for the year	403,880	86,588
Other comprehensive (loss)/income	(4,910)	2,546
Total comprehensive income	408,790	84,042
Dividend received from the associate	–	–
Current assets	381,292	659,850
Non-current assets	604,406	316,765
Current liabilities	756,572	348,057
Non-current liabilities	7,934	–
Equity	221,192	628,558
Reconciled to the Group's interests in the associate		
Gross amount of net assets of the associate	221,192	628,558
Group's effective interest	41.04%	34.44%
Group's share of net assets of the associate	90,777	216,451
Goodwill		
Cost	264,090	280,370
Exchange adjustment	12,816	(16,280)
Impairment	(26,155)	–
Carrying amount of goodwill	250,751	264,090
Carrying amount in the consolidated financial statements	341,528	480,541

15 INTERESTS IN ASSOCIATES (Continued)

Aggregate information of the associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	126,060	10,045
Aggregate amount of the Group's share of those associates'		
– Loss for the year	5,850	6,233
– Other comprehensive income	–	–
– Total comprehensive income	5,850	6,233

As the closing share price of LightInTheBox on 31 December 2018 was substantially lower than the carrying amount per share of shares held by the Group and LightInTheBox sustained losses for several years, the directors considered that there was an indication of impairment for interests in LightInTheBox and carried out an impairment test. The recoverable amount of the interests in LightInTheBox was based on fair value less costs of disposal, estimated with reference to the share prices on transactions in open market and the share price of over the counter transaction near the end of the reporting period. The fair value measurement was categorised as a Level 2 fair value based on the inputs in the valuation technique used. As a result, impairment loss of approximately RMB26,155,000 was provided for interests in LightInTheBox for the year ended 31 December 2018 and the recoverable amount was RMB341,528,000 as at 31 December 2018.

16 INTERESTS IN JOINT VENTURES

The directors are of the view that the Group had no individually material joint venture as at 31 December 2018 and 2017. Aggregate information of the joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial joint venture in the consolidated financial statements	25,519	114,387
Aggregate amount of the Group's share of the joint ventures'		
– (Losses)/profit for the year	(2,343)	727
– Other comprehensive income	–	–
– Total comprehensive income	(2,343)	727

17 OTHER NON-CURRENT FINANCIAL ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Equity securities designated at FVOCI (non-recycling)			
– Unlisted equity securities	8,702	11,229	–
Available-for-sale financial assets			
– Unlisted equity securities	–	–	12,500

The unlisted equity securities are shares in Sinocan International Technologies Co., Ltd., a company incorporated in PRC and engaged in research and development of advanced touch and display technologies and providing touch product solution. The Group designated its investment in Sinocan International Technologies Co., Ltd. at FVOCI (non-recycling), as the investment is held for strategic purposes. No dividends were received on this investment during the year (2017: nil).

Available-for-sale financial assets were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of IFRS 9 at 1 January 2018 (see note 1(c)(i)).

18 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Financial assets at fair value through profit or loss		
Listed equity securities in Hong Kong		
– Fullshare Holdings Limited	968,187	2,092,944
– China High Speed Transmission Equipment Group Co., Ltd	–	30,807
Derivative financial instrument		
– Warrant	–	3
– Wealth management products and trust products (i)	3,388,360	2,761,540
Forward contracts	141,051	182,408
Contingent consideration (note 30(f) and 34)		
– acquisition of Shenzhen Sinoagri (ii)	278,052	6,915
– acquisition of HSH (iii)	9,705	–
	4,785,355	5,074,617
Financial liabilities at fair value through profit or loss – current		
Forward contracts	141,051	450,140
Contingent consideration (iii)		
– acquisition of HSH	1,276	–
	142,327	450,140
Financial liabilities at fair value through profit or loss – non-current		
Convertible redeemable preference shares (iv)	59,024	–

(i) The amount represents investments in wealth management products and trust products issued by reputable financial institutions in the PRC. There are no fixed or determinable returns of these wealth management products and trust products. Wealth management products and trust products with an aggregate carrying amount of RMB3,240,749,000 (2017: RMB2,761,540,000) were pledged for bills payable of the Group (note 24).

(ii) The amount represents the contingent consideration of acquisition of Shenzhen Sinoagri amounting to RMB278,052,000 as at 31 December 2018 (31 December 2017: RMB6,915,000). The amount is generated as a result of part of the consideration of the acquisition which depends on the post-acquisition financial performance of Shenzhen Sinoagri.

(iii) The amount represents the contingent consideration of acquisition of HSH (see note 34). The amount is generated as a result of part of the consideration of the acquisition which depends on the post-acquisition financial performance of HSH.

(iv) Convertible redeemable preference shares were issued by HSH (note 34). At the option of the holder, the convertible redeemable preference shares can be converted at any time into ordinary shares of HSH based on pre-determined conversion price, subject to certain anti-dilution adjustments. The holders of preference shares are entitled to redemption rights with various maturity periods.

19 INVENTORIES AND OTHER CONTRACT COSTS

	Note	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Inventories				
Properties under development for sale	(ii)	4,113,217	4,924,243	4,905,386
Completed properties held for sale		1,700,152	1,968,727	1,968,727
Commodities		463,736	288,411	288,411
		6,277,105	7,181,381	7,162,524

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balances at 1 January 2018. Comparative information has not been restated.

(ii) Upon the adoption of IFRS 15, opening adjustments were made as at 1 January 2018 to accrue interest on certain advance payments received from customers. This interest was eligible for capitalisation into the carrying value of the Group's properties under development for sale, which has resulted in an increase in that balance as at that date (see note 1(c)(ii)).

(a) Properties under development for sale

(i) Properties under development in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Expected to be recovered within one year		
Properties under development for sale	1,087,635	926,821
Expected to be recovered after more than one year		
Properties held for future development for sale	1,659,909	3,363,149
Properties under development for sale	1,365,673	615,416
	3,025,582	3,978,565
	4,113,217	4,905,386

As at 31 December 2018, certain properties under development with an aggregate carrying value of RMB1,204,985,000 (2017: RMB1,704,082,000) was pledged as collateral for the Group's bank loans (note 25).

19 INVENTORIES AND OTHER CONTRACT COSTS (Continued)

(a) Properties under development for sale (Continued)

(ii) The analysis of carrying value of leasehold land included in properties under development is as follows:

	2018 RMB'000	2017 RMB'000
In the PRC		
– long-term leases (over 50 years)	18,833	28,258
– medium-term leases (40-50 years)	1,302,493	1,226,257
	1,321,326	1,254,515

(b) Completed properties held for sale

	2018 RMB'000	2017 RMB'000
Completed properties held for sale in the PRC	1,700,152	1,968,727

The analysis of carrying value of leasehold land included in completed properties held for sale is as follows:

	2018 RMB'000	2017 RMB'000
In the PRC		
– long-term leases (over 50 years)	5,922	5,374
– medium-term leases (40-50 years)	333,662	267,293
	339,584	272,667

Carrying amount of completed properties held for sale recognised as an expenses and included in profit or loss for the year ended 31 December 2018 is RMB382,542,000 (2017: RMB465,418,000).

The amount of completed properties held for sale expected to be recovered after more than one year is RMB1,383,728,000 (2017: RMB1,586,185,000).

As at 31 December 2018, completed properties held for sale with an aggregate carrying value of RMB1,426,811,000 (2017: RMB1,517,956,000) was pledged as collateral for the Group's bank loans (note 25).

19 INVENTORIES AND OTHER CONTRACT COSTS (Continued)

(c) Commodities

(i) Commodities in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Supply chain management and trading business		
– Sugar	89,882	282,920
– Steel	232,587	–
– Chemical materials	40,456	–
– Plastic	34,364	–
– Others	66,447	5,491
	463,736	288,411

(ii) The analysis of the amount of commodities recognised as an expenses and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of commodities sold	53,779,019	20,467,478

20 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	Note	31 December 2018 RMB'000	1 January 2018(i) RMB'000	31 December 2017(i) RMB'000
Contract assets				
Arising from performance under construction contracts	(ii)	329,876	324,862	–
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and other receivables" (note 21)		2,068,252	1,596,803	

Notes:

(i) The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of IFRS 15, amounts previously included as "Long-term receivables" were reclassified to contract assets (see note 1(c)(ii)). The payment schedule of the Group's construction contract requires final settlement when the project is completed. This payment schedule results in the build up of significant contract assets.

20 CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(a) Contract assets (Continued)

The amount of contract assets that is expected to be recovered after more than one year is RMB329,876,000 (2017: RMB324,862,000).

(b) Contract liabilities

	Notes	31 December 2018 RMB'000	1 January 2018(i) RMB'000	31 December 2017(i) RMB'000
Contract liabilities				
Property development and related services				
– Forward sales deposits and instalments received	(ii)(iii)	443,709	787,173	–
Supply chain management and trading				
– Deposits received from third parties	(ii)	1,358,564	252,727	–
– Deposits received from related parties	(ii)	27,439	–	–
Others				
– Deposits received	(ii)	6,006	7,400	–
		1,835,718	1,047,300	–

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balances at 1 January 2018.

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from "trade and other payables" (note 24) to contract liabilities (see note 1(c)(ii)).

(iii) Upon the adoption of IFRS 15, an opening adjustment as at 1 January 2018 was made to accrue interest on the advance payments received from customers (see note 1(c)(ii)).

20 CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract liabilities (Continued)

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– Property development and related services

Depending on market conditions, the Group requires the customers to pay off the full consideration within an agreed time frame while developments are still ongoing, rather than on the completion of the relevant properties. Such advance payment schemes result in contract liabilities being recognised throughout the remaining property construction period for the full amount of the contract price. In addition, the contract liability will be increased by the amount of interest expense being accrued by the Group to reflect the effect of any financing benefit obtained from the customers during the period between the payment date and the revenue recognition date. As this accrual increases the amount of the contract liability during the period of construction, it therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer.

– Supply chain management and trading

The Group receives 10% to 100% of the contract value as a deposit from customers at the payment date as stipulated in the sale and purchase agreement. This deposit is recognised as a contract liability until the customer takes possession of and accepts the products.

Movements in contract liabilities

	2018 RMB'000
Balance at 1 January	1,047,300
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	(674,422)
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year in respect of sale of properties as at 31 December 2018	75,254
Increase in contract liabilities as a result of accruing interest expense on advances	13,924
Net increase in contract liabilities as a result of receiving deposits in respect of sale of commodities as at 31 December 2018	1,373,662
Balance at 31 December	1,835,718

The amount of forward sales deposits and instalments received in respect of properties expected to be recognised as income after more than one year is RMB282,454,000 (2017: RMB424,112,000, which were included under "trade and other payables").

21 TRADE AND OTHER RECEIVABLES

	Note	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade debtors and bills receivables, net of loss allowance	(i),21(a)	2,874,048	1,862,831	2,142,009
Loans and factoring receivables, net of loss allowance	(i),21(b)	3,347,928	3,062,215	3,085,962
		6,221,976	4,925,046	5,227,971
Advances to suppliers		873,441	573,000	573,000
Other receivables, deposits and prepayments	(i)	1,509,008	1,297,099	1,297,099
		8,604,425	6,795,145	7,098,070

Note:

(i) Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional expected credit losses ("ECLs") on trade debtors and bills receivables and loans and factoring receivables, which has resulted in a decrease in these balances as at that date (see note 1(c)(i)).

Trade and other receivables of the Group included deposits of RMB25,147,000 (2017: RMB 97,000,000) which are expected to be recovered or recognised as expense after more than one year. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

As at 31 December 2018, certain bills receivables with carrying value of RMB932,614,000 (2017: RMB10,000,000) were pledged as collateral for the Group's bank loans (note 25).

(a) Ageing analysis of trade debtors and bill receivables

As at the end of the reporting period, the ageing analysis of trade debtors and bill receivables based on revenue recognition date and net of allowance for impairment losses, is as follows:

	2018 RMB'000	2017 RMB'000
Within 6 months	2,085,881	885,710
6 to 12 months	353,362	971,281
Over 12 months	434,805	285,018
	2,874,048	2,142,009

21 TRADE AND OTHER RECEIVABLES (Continued)

(a) Ageing analysis of trade debtors and bill receivables (Continued)

Customers are normally granted credit terms of 0 to 360 days, depending on the credit worthiness of individual customers. Further details on the Group's credit policy and credit risk arising from trade debtors and bill receivables are set out in note 30(a).

(b) Loans and factoring receivables, net of loss allowance

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Guaranteed loans receivable, net of loss allowance	39,424	165,326	167,585
Secured loans receivable, net of loss allowance (i)	2,162,005	2,161,479	2,174,477
Unsecured loans receivable, net of loss allowance	740,474	–	–
Factoring receivables, net of loss allowance	406,025	735,410	743,900
	3,347,928	3,062,215	3,085,962

(i) Secured loans receivables represent secured loans advanced to third-party borrowers secured by the borrowers' inventories, properties or unlisted shares.

Ageing analysis

As at the end of the reporting period, the ageing analysis of loans and factoring receivables based on recognition date of loans and factoring receivables and net of allowance for doubtful debts, is as follows:

	2018 RMB'000	2017 RMB'000
Within 6 months	3,026,116	2,159,064
6 to 12 months	51,347	705,675
Over 12 months	270,465	221,223
	3,347,928	3,085,962

Borrowers are normally granted credit terms of 180 to 360 days, depending on the credit worthiness of individual customers. Further details on the Group's credit policy and credit risk arising from loans and factoring receivables are set out in note 30(a).

22 PLEDGED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Secured for bank loans (note 25)	20,699	254,650
Secured for letter of credit and bills payable (note 24)	2,997,853	2,187,042
Others	47,680	112,209
	3,066,232	2,553,901

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalent comprise:

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	1,118,626	1,283,647

At 31 December 2018, cash and cash equivalents and pledged bank deposits with aggregate amount of RMB4,087,685,000 (2017: RMB3,720,168,000) were placed with banks in Mainland China. Remittance of funds out of mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Recociliation of profit before taxation to cash used in operations

	Note	2018 RMB'000	2017 (Note) RMB'000
Profit before taxation		2,348,075	2,803,621
Adjustments for:			
Amortisation	5(c)	60,557	28,437
Depreciation	5(c)		
– property, plant and equipment		38,959	22,873
Loss on disposal of listed equity securities	4	80,274	–
Finance income	5(a)	(206,000)	(89,001)
Finance costs		697,151	534,360
Net valuation gain on investment properties	10	(3,865,192)	(3,021,326)
Fair value changes on financial instruments at fair value through profit or loss	4	512,280	64,299
Share of net losses/(profits) of joint ventures	16	2,343	(727)
Share of net losses of associates	15	172,873	36,050
Equity-settled share-based payment expenses		169,663	122,484
Amortisation of deferred income		(10,823)	(21,598)
Dividend received from financial assets at fair value through profit or loss	4	(10,922)	(10,207)
Gain on disposal of subsidiaries		(3,692)	–
Impairment loss on intangible assets	12	152,824	–
Impairment loss on investment in an associate	15	26,155	–
Impairment loss on goodwill	13	461,028	–
Impairment loss on trade and other receivables	5(c)	265,422	20,557
Others		648	(20,734)
Changes in working capital			
(Increase)/decrease in inventories and other contract costs		(422,409)	173,629
Increase in trade and other receivables		(1,960,628)	(1,335,184)
Increase in long-term receivables		–	(30,892)
Increase in contract assets		(5,014)	–
Increase/(decrease) in trade and other payables		372,050	(1,339,034)
Increase in contract liabilities		730,349	–
Increase in deferred income		7,111	3,186
Decrease/(increase) in amounts due from related parties		18,657	(13,015)
Increase/(decrease) in amounts due to related parties		764	(764)
Cash used in operations		(367,497)	(2,072,986)

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000 (note 25)	Amounts due to third parties RMB'000	Amounts due to related parties RMB'000	Total RMB'000
At 1 January 2018	10,994,417	729,822	277,173	12,001,412
Changes from financing cash flows:				
Advance from related parties	23,000	–	808,753	831,753
Repayment to related parties	(12,000)	–	(436,535)	(448,535)
Proceeds from new bank loans and loans from other financial institutions	6,451,594	–	–	6,451,594
Repayment of bank loans and loans from other financial institutions	(5,747,415)	–	–	(5,747,415)
Proceeds from loans from third parties	2,406,259	685,369	–	3,091,628
Repayment of loans from third parties	–	(1,415,191)	–	(1,415,191)
Addition from acquisition of subsidiaries (note 34)	117,563	–	–	117,563
Decrease from disposal of subsidiaries	(7,474)	–	–	(7,474)
Total changes from financing cash flows	3,231,527	(729,822)	372,218	2,873,923
At 31 December 2018	14,225,944	–	649,391	14,875,335

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Interest-bearing borrowings RMB'000 (note 25)	Amounts due to third parties RMB'000	Amounts due to related parties RMB'000	Total RMB'000
At 1 January 2017	8,393,922	1,000,000	631,881	10,025,803
Changes from financing cash flows:				
Advance from related parties	–	–	644,227	644,227
Repayment to related parties	–	–	(1,043,133)	(1,043,133)
Proceeds from new bank loans and loans from other financial institutions	6,333,369	–	–	6,333,369
Repayment of bank loans and loans from other financial institutions	(5,329,619)	–	–	(5,329,619)
Proceeds from loans from third parties	–	1,511,532	–	1,511,532
Repayment of loans from third parties	–	(1,781,710)	–	(1,781,710)
Addition from acquisition of subsidiaries	1,596,745	–	44,198	1,640,943
Total changes from financing cash flows	2,600,495	(270,178)	(354,708)	1,975,609
At 31 December 2017	10,994,417	729,822	277,173	12,001,412

24 TRADE AND OTHER PAYABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade and bills payables (i)	8,143,449	7,638,996	7,638,996
Receipts in advance	294,356	248,656	1,257,188
Other payables and accruals	2,433,625	3,021,541	3,021,541
Other borrowings (i)(ii)	135,110	594,067	594,067
	11,006,540	11,503,260	12,511,792

Note: As a result of the adoption of IFRS 15, advances received and forward sales deposits and instalments received are included in contract liabilities and disclosed in note 20(b) (see note 1(c)(ii)). Receipts in advance as at 31 December 2018 mainly represents rental receipts in advance for investment properties.

All the trade and other payables are expected to be settled within one year or repayable on demand.

24 TRADE AND OTHER PAYABLES (Continued)

(i) As of the end of the reporting period, the ageing analysis of trade and bills payables and other borrowings, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 6 months	4,140,186	3,015,551
Over 6 months but within 12 months	2,386,941	4,626,891
Over 12 months	1,751,432	590,621
	8,278,559	8,233,063

(ii) Other borrowings mainly represented amounts generated from financial lending business. The interest rate of the other borrowings are ranging from 6.9%-9.3% (2017: 7.4%-12%).

(iii) Bills payable of the Group were secured by certain pledged bank deposits and wealth management products and trust products of the Group as at 31 December 2018 and 2017 (notes 18 and 22).

25 INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interesting-bearing borrowings is as follows:

	2018 RMB'000	2017 RMB'000
Current		
Bank loans and loans from other financial institutions (Note 25(a))	7,554,865	5,572,061
Loans from an associate (Note 25(b))	11,000	–
Other loans (Note 25(c))	1,689,249	–
	9,255,114	5,572,061
Non-current		
Bank loans and loans from other financial institutions (Note 25(a))	3,953,821	5,422,356
Other loans (Note 25(c))	1,017,009	–
	4,970,830	5,422,356
	14,225,944	10,994,417

(a) Bank loans and loans from other financial institutions

At 31 December 2018, the bank loans and loans from other financial institutions were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within one year or on demand	7,554,865	5,572,061
After 1 year but within 2 years	2,368,953	2,437,184
After 2 years but within 5 years	1,311,118	2,540,598
After 5 years	273,750	444,574
	3,953,821	5,422,356
	11,508,686	10,994,417

25 INTEREST-BEARING BORROWINGS (Continued)

(a) Bank loans and loans from other financial institutions (Continued)

(i) As at 31 December 2018, the bank loans and loans from other financial institutions were secured as follows:

	2018 RMB'000	2017 RMB'000
Secured	11,351,686	10,634,426
Unsecured	157,000	359,991
	11,508,686	10,994,417

(ii) Assets of the Group pledged to secure the bank loans and loans from other financial institutions comprise:

	2018 RMB'000	2017 RMB'000
Pledged bank deposits (note 22)	20,699	254,650
Bill receivables (note 21)	932,614	10,000
Other receivables	8,000	–
Investment properties (note 10)	16,246,645	11,643,869
Investment properties under development (note 10)	2,744,780	2,243,626
Properties under development (note 19)	1,204,985	1,704,082
Completed properties held for sale (note 19)	1,426,811	1,517,956
Property, plant and equipment (note 11)	248,394	15,960
	22,832,928	17,390,143

(iii) Bank loans and loans from other financial institutions bear interest ranging from 4.35% to 13.00% per annum for the year ended 31 December 2018 (2017: 2.50% to 13.00% per annum).

(iv) Certain banking facilities and borrowings of the Group are subject to the fulfilment of covenants relating to: (1) certain of the Group's subsidiaries' statement of financial position ratio; (2) restriction of profit distribution by certain of its subsidiaries; (3) early repayment of principal to be triggered when 70% of the gross sellable area for the underlying property project are sold; or (4) restriction of providing financial guarantees. These requirements are commonly found in lending arrangements with banks and financial institutions. If the Group was to breach such covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants and communicates with its lenders. Further details of the Group's management of liquidity risk are set out in note 30(b).

At 31 December 2018, bank loans of the Group of RMB5,632,854,000 (2017: RMB2,767,372,000) were not in compliance with the imposed covenants. The Group has obtained notices from the corresponding banks, which confirmed that the respective subsidiaries of the Group would not be regarded as having breached the covenants and the banks would not demand early repayment from the respective subsidiaries of the Group.

25 INTEREST-BEARING BORROWINGS (Continued)

(a) Bank loans and loans from other financial institutions (Continued)

(v) As at 31 December 2018, secured bank loans of the Group of RMB140,000,000 (2017: RMB160,000,000) was guaranteed by Zall Holdings Limited ("Zall Holdings"), a company owned by the Ultimate Controlling Party of the Company.

(b) Loans from an associate

The loans were unsecured, repayable upon demand and bear interest of 4% per annum.

(c) Other Loans

At 31 December 2018, other loans from third parties were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within one year or on demand	1,689,249	–
After 1 year but within 2 years	1,017,009	–
	2,706,258	–

Other loans from third parties bear interest ranging from 4.00% to 8.00% per annum for the year ended 31 December 2018. A loan of RMB300,000,000 was secured by the proceeds from a subsidiary's sale transactions for a period from June 2019 to Sep 2019 with a cap of RMB324,000,000. The remaining loans were unsecured.

26 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 19%-21% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

(Expressed in Renminbi unless otherwise indicated)

27 EQUITY-SETTLED SHARE-BASED PAYMENTS

(a) 2017 Share Option Scheme

The Group has adopted a share option scheme ("2017 Share Option Scheme") which granted a total of 45,667,950 share options during year ended 31 December 2017, to certain senior management "Shenzhen Sinoagri Management team" of Shenzhen Sinoagri at total consideration of HK$3.00 to subscribe shares of the Company. Each option gives the holder right to subscribe for one ordinary share in the Company and is settled gross in shares.

The terms and conditions of the grants are as follows:

Number of share options	Vesting conditions	Contractual life of options
	The date of grant of 22 December 2017 to the respective date of the publication of annual report of the Company for the following financial year	The respective date of the publication of annual report of the Company for the following financial year to 21-12-2027
9,133,590	2017	2017
9,133,590	2018	2018
9,133,590	2019	2019
9,133,590	2020	2020
9,133,590	2021	2021
45,667,950		

The number of the options to be exercised after each vesting period is subject to a performance guarantee mechanism with reference to revenue and net profit of Shenzhen Sinoagri for the respective financial year as set out in the Share Option Scheme.

The number and weighted average exercise prices of share options are as follows:

	2018 Weighted average exercise price HKD	2018 Number of options	2017 Weighted average exercise price HKD	2017 Number of options
Outstanding at the beginning of the year	8.48	45,667,950	–	–
Granted during the year	–	–	8.48	45,667,950
Outstanding at the end of the year	8.48	45,667,950	8.48	45,667,950
Exercisable at the end of the year	8.48	9,133,590	8.48	–

(Expressed in Renminbi unless otherwise indicated)

27 EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(a) 2017 Share Option Scheme (Continued)

As at 31 December 2018, the remaining contractual life of share option scheme is 9 years (2017: 10 years).

Fair value of share options and assumptions:

The fair value of service received in return of share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The fair value of each share option at measurement date is HKD3.7179 and the significant inputs into the model are listed as follows:

Share price determined at the measurement date	HKD8.48
Exercise price	HKD8.48
Time to Maturity	10 years
Exercise Mulitple	2.20
Volatility	37.29%
Estimated dividend yields	0%
Risk Free Rate	1.85%
Pre-vesting Exit Rate	0%
Post-vesting Exit Rate	0%

The estimated volatility of share price is calculated based on the statistical analysis of historical volatility of the Company. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received.

In 2018, the total expense recognised in the consolidated statement of profit or loss for share options granted to the recipients is RMB38,089,000 (2017: RMB37,127,000).

(b) Management Shares Award Scheme

On 22 December 2017, total 8,059,050 awarded shares were granted to Shenzhen Sinoagri Management team. The grant date is 22 December 2017. The purposes of the award shares to Shenzhen Sinoagri Management team is to ensure the certainty of benefit and security of the recipients' positions and also allow the Company to continue its business operation with stability.

The awarded shares granted to the grantees will vest in 5 equal instalments upon the publication of the annual report of the Company for each financial year ended 2017 to 2021. The number of awarded shares to be vested in each instalment is subject to the same performance guarantee mechanism with reference to revenue and net profit of Shenzhen Sinoagri for the respective financial year as set out in the 2017 Share Option Scheme.

The awarded shares granted were issued on 22 December 2017, of which 1,611,810 awarded shares are vested during 2018. Movements in the number of shares held for Management Shares for the year ended 2018 are as follows:

(Expressed in Renminbi unless otherwise indicated)

27 EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(b) Management Shares Award scheme (Continued)

	Number of Management Shares granted but not yet vested
At 1 January 2018	8,059,050
Vested during the year	(1,611,810)
At 31 December 2018	6,447,240

The total fair value of the awarded shares amounted to RMB59,175,000. The estimated fair value of the award shares on the grant date is determined by reference to the market price of the Company's shares at that date. The Group recognised share based payment expenses of RMB15,497,000 during the year ended 31 December 2018 (2017: RMB15,185,000) with a corresponding increase in equity-settled share-based payment reserve within equity.

(c) Incentive Shares

As one of the conditions of the acquisition of Shenzhen Sinoagri, the Company entered into a service agreement with Mr. Wei Zhe, pursuant to which, Mr. Wei Zhe would be appointed as an executive Director for a term from 28 June 2017 to 31 December 2019. As part of the remuneration package for Mr. Wei Zhe's contribution to the Company, subject to satisfaction by Shenzhen Sinoagri of the performance conditions for any of the three financial years from 2017 to 2019, the Company will allot and issue 10,746,000 ordinary shares ("Incentive Shares") to Mr. Wei Zhe within the two weeks after the date on which the annual report for the relevant financial year is published. The performance conditions are the same conditions as stated in performance guarantee mechanism set out in the 2017 Share Option Scheme with reference to revenue and net profit of Shenzhen Sinoagri. The Incentive Shares will be released to Mr. Wei Zhe under a lock-up arrangement.

For the purposes of the monitoring, implementing and enforcing the abovementioned lock-up arrangement, the certificates of the Incentive Shares, once issued, will be initially deposited with the Company in escrow. If Shenzhen Sinoagri satisfies the abovementioned performance conditions, all of the Incentive Shares will be allotted and issued to Mr. Wei Zhe upon the publication of that year's annual report of the Company, of which up to three-fifths of the Incentive Shares will be immediately released to Mr. Wei Zhe and the remaining Incentive Shares will be released in equal instalments upon the publication of the annual report of the Company for each of the following financial years up to 2021.

(Expressed in Renminbi unless otherwise indicated)

27 EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(c) Incentive Shares (Continued)

As at 31 December 2018, the Incentive shares granted are issued and 2,149,200 shares are vested to Mr Wei Zhe. Movements in the number of shares granted for the Incentive Shares for the year ended 31 December 2018 are as follows:

	Number of shares granted but not yet vested
At 1 January 2018	10,746,000
Vested during the year	(2,149,200)
At 31 December 2018	8,596,800

The estimated fair value of the Incentive Shares on the grant date is determined based on the market price of the Company's shares at that date and discount for lack of marketability, which is determined based on Asian put option pricing model. The fair value of the Incentive Shares on the grant date was RMB43,095,000 and the significant inputs into the model are listed as follows:

Share price determined at the measurement date	HKD4.92
Expiry date	30 April 2018, 2019, 2020, 2021 and 2022
Volatility	28.266% to 46.642%
Risk Free Rate	0.179% to 0.737%

The Group recognised share based payment expenses of RMB18,360,000 during the year ended 31 December 2018 (2017: RMB12,947,000) with a corresponding increase in equity-settled share-based payment reserve within equity.

(d) VKC Consultancy Service Consideration Shares

As one of the conditions of the acquisition of Shenzhen Sinoagri, the Company entered into a consultancy agreement with Vision Knight Capital Management Company Limited ("VKC", a company incorporated in Cayman Islands with limited liability and a company controlled by Mr. Wei Zhe), pursuant to which VKC as the consultant will provide E-commerce development related services in PRC to the Company for a term of three years from 28 June 2017 at a consultancy fee which will be satisfied by the allotment and issue of 42,981,000 ordinary shares ("VKC Consultancy Service Consideration Shares") of the Company to VKC. The vesting of VKC Consultancy Service Consideration Shares is subject to the same vesting conditions of the Incentive Shares.

As at 31 December 2018, the Consultancy Service Consideration Shares are issued and 8,596,200 shares are vested to VKC. Movements in the number of shares granted for VKC Consultancy Service Consideration Shares for the year ended 31 December 2018 are as follows:

(Expressed in Renminbi unless otherwise indicated)

27 EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(d) VKC Consultancy Service Consideration Shares (Continued)

	Number of shares granted but not yet vested
At 1 January 2018	42,981,000
Vested during the year	(8,596,200)
At 31 December 2018	34,384,800

The fair value of the granted shares is determined based on the market price of the Company's shares during the service rendering period and discount for lack of marketability, which is determined based on Asian put option pricing model. The Group recognised share based payment expenses of RMB97,481,000 during the year ended 31 December 2018 (2017: RMB57,225,000) with a corresponding increase in equity-settled share-based payment reserve within equity.

Share price determined at the measurement date	HKD4.92
Expiry date	30 April 2018, 2019, 2020, 2021 and 2022
Volatility	31.548% to 46.990%
Risk Free Rate	0.429% to 0.677%

(e) 2018 Share Option Scheme

The Group has adopted a share option scheme ("2018 Share Option Scheme") which granted a total of 50,000,000 share options during year ended 31 December 2018, to the eligible participants to subscribe shares of the Company. Each option gives the holder right to subscribe for one ordinary share in the Company and is settled gross in shares.

The terms and conditions of the grants are as follows:

			Number of shares option granted			
Dated granted	Vesting date	Expiry date	Directors	Employee	Exercise price	Total
4 Sep 2019	the first trading date after the 12-month period from the date of grant	the last trading date of the 24-month period from the date of grant	1,500,000	13,500,000	HKD6.66	15,000,000
4 Sep 2019	the first trading date after the 24-month period from the date of grant	the last trading date of the 36-month period from the date of grant	1,500,000	13,500,000	HKD6.66	15,000,000
4 Sep 2019	the first trading date after the 36-month period from the date of grant	the last trading date of the 48-month period from the date of grant	2,000,000	18,000,000	HKD6.66	20,000,000

(Expressed in Renminbi unless otherwise indicated)

27 EQUITY-SETTLED SHARE-BASED PAYMENTS (Continued)

(e) 2018 Share Option Scheme (Continued)

The number of the options to be exercised after each vesting period is subject to fulfilment of certain financial performance targets as set out in the 2018 Share Option Scheme.

The number and weighted average exercise prices of share options are as follows:

	2018 Weighted average exercise price HKD	2018 Number of options
Granted during the year	6.66	50,000,000
Forfeited during the year	6.66	(1,300,000)
Outstanding at the end of the year	6.66	48,700,000

As at 31 December 2018, the weighted average remaining expected contractual life of share option scheme is 2.85 years.

Fair value of share options and assumptions:

The fair value of service received in return of share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The fair value of each share option at measurement date is HKD1.71 and the significant inputs into the model are listed as follows:

Share price determined at the measurement date	HKD6.36
Exercise price	HKD6.66
Time to Maturity	2-4 years
Exercise Mulitple	2.80
Volatility	33.66%-43.76%
Estimated dividend yields	0.48%
Risk Free Rate	1.98%-2.10%
Pre-vesting Exit Rate	0%
Post-vesting Exit Rate	4.5%

The estimated volatility of share price is calculated based on the statistical analysis of historical volatility of the Company. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received.

As performance condition was not satisfied in 2018, no expense was recognised in the consolidated statement of profit or loss.

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018 RMB'000	2017 RMB'000
Current tax assets:		
PRC CIT	3,173	3,694
PRC LAT	8,844	12,331
	12,017	16,025
Current tax liabilities:		
PRC CIT	307,368	192,472
PRC LAT	145,112	92,180
	452,480	284,652

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Provision for PRC LAT RMB'000	Fair value adjustments for investment properties RMB'000	Tax loss RMB'000	Fair value adjustment of intangible assets through business combination RMB'000	Accrual of interest expense (Note 1) RMB'000	Credit loss allowance (Note 2) RMB'000	Others RMB'000	Total RMB'000
Deferred tax arising from:								
At 1 January 2017	11,238	(2,915,257)	16,742	–	–	–	(256,085)	(3,143,362)
Credited/(charged) to profit or loss	8,166	(361,820)	(17,733)	4,115	–	3,813	8,307	(355,152)
Acquisition of subsidiaries	–	–	14,989	(224,933)	–	7,676	(38,930)	(241,198)
Transfer from liabilities directly associated with non-current assets classified as held for sale	–	(38,038)	–	–	–	–	–	(38,038)
At 31 December 2017	19,404	(3,315,115)	13,998	(220,818)	–	11,489	(286,708)	(3,777,750)
Impact on initial application of IFRS 15	–	–	–	–	4,977	–	–	4,977
Impact on initial application of IFRS 9	–	–	–	–	–	75,167	318	75,485
At 1 January 2018	19,404	(3,315,115)	13,998	(220,818)	4,977	86,655	(286,390)	(3,697,288)
Credited/(charged) to profit or loss	14,259	(1,202,100)	8,302	52,842	1,898	25,354	231,238	(868,207)
Credited to other comprehensive income	–	–	–	–	–	–	632	632
Acquisition of subsidiaries (note 34)	–	–	–	(9,198)	–	–	–	(9,198)
Disposal of subsidiaries	–	–	–	–	–	–	99	99
At 31 December 2018	33,663	(4,517,215)	22,300	(177,174)	6,875	112,009	(54,421)	(4,573,962)

Note 1: Upon the initial application of IFRS 15, the Group has recognised deferred tax assets arising from the accrual of interest expense arising from contracts contains a significant financing component (see note 1(c)(ii)).

Note 2: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see note 1(c)(i)).

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(ii) Reconciliation to the consolidated statement of financial position

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	211,047	67,997
Net deferred tax liabilities recognised in the consolidated statement of financial position	(4,785,009)	(3,845,747)
	(4,573,962)	(3,777,750)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(w), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB776,339,000 as at 31 December 2018. The directors consider it is not probable that future taxable profits against which the losses can be utilised will be available from these subsidiaries. Cumulative tax losses of RMB698,073,000 will expire within 5 years under current tax legislation.

(d) Deferred tax liabilities not recognised

As at 31 December 2018, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB16,882,718,000. Deferred tax liabilities of RMB1,688,272,000 have not been recognised in respect of the tax that would be payable on the distribution of the retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000 29(b)	Share premium RMB'000 29(c)(i)	Shares held for various incentive plans RMB'000 29(b)	Equity-settled share-based payment reserve RMB'000 29(c)(iv)	Exchange reserve RMB'000 29(c)(iii)	Accumulated losses RMB'000	Total equity RMB'000
1 January 2017		29,727	779,593	–	–	(11,819)	(201,217)	596,284
Changes in equity for 2017:								
Total comprehensive income for the year		–	–	–	–	(73,563)	(102,519)	(176,082)
Issuance of new shares		1,038	1,305,453	–	–	–	–	1,306,491
Acquisition of subsidiaries		1,504	2,218,644	–	–	–	–	2,220,148
Equity-settled share-based payment for employee	27	–	–	–	65,259	–	–	65,259
Equity-settled share-based payment for non-employee	27	–	–	–	57,225	–	–	57,225
Issuance of shares for Management Shares Award Scheme	27	23	59,152	(59,175)	–	–	–	–
At 31 December 2017 (Note)		32,292	4,362,842	(59,175)	122,484	(85,382)	(303,736)	4,069,325
Impact on initial application of IFRS 9		–	–	–	–	–	(2,259)	(2,259)
At 1 January 2018		32,292	4,362,842	(59,175)	122,484	(85,382)	(305,995)	4,067,066

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Movements in components of equity (Continued)

	Note	Share capital RMB'000 29(b)	Share premium RMB'000 29(c)(i)	Shares held for various incentive plans RMB'000 29(b)	Equity-settled share-based payment reserve RMB'000 29(c)(iv)	Exchange reserve RMB'000 29(c)(iii)	Accumulated losses RMB'000	Total equity RMB'000
1 January 2018		32,292	4,362,842	(59,175)	122,484	(85,382)	(305,995)	4,067,066
Changes in equity for 2018:								
Total comprehensive income for the year		–	–	–	–	53,856	(128,811)	(74,955)
Issue of shares for Incentive Shares	29(b)(i)	23	69,850	(69,873)	–	–	–	–
Issue of shares for VKC Consultancy Service Consideration Shares	29(b)(ii)	93	279,381	(279,474)	–	–	–	–
Equity-settled share-based payment for employee	27/29(b)(i)	6	9,055	11,835	51,049	–	–	71,945
Equity-settled share-based payment for non-employee	27/29(b)(ii)	23	49,827	–	47,631	–	–	97,481
Dividend approved in respect of the previous year	29(e)	–	(246,653)	–	–	–	–	(246,653)
At 31 December 2018		32,437	4,524,302	(396,687)	221,164	(31,526)	(434,806)	3,914,884

Note: The Group, including the Company, has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

	Note	2018 Number of shares ('000)	2018 Amount HKD'000	2017 Number of shares ('000)	2017 Amount HKD'000
Authorised:					
Ordinary shares of HKD0.00333 each		24,000,000	80,000	24,000,000	80,000
Ordinary shares, issued and fully paid:					
At 1 January		11,628,005	38,759	10,745,578	35,818
Placing of new shares		–	–	357,141	1,190
Issuance of new shares as consideration of acquisition of subsidiaries		–	–	517,227	1,724
Issue of Incentive Shares	(i)	10,746	36	–	–
Issue of VKC Consultancy Service Consideration Shares	(ii)	42,981	143	–	–
Issuance of Management Shares		–	–	8,059	27
At 31 December		11,681,732	38,938	11,628,005	38,759

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) On 8 May 2018, 10,746,000 ordinary shares were issued for the Incentive Shares as set out in note 27(c). According to the Incentive Shares scheme, 2,149,200 shares issued are vested directly as performance conditions were satisfied. According to the accounting policy as set out in note 1(v), RMB6,000 (equivalent to HKD7,000) was credited to share capital and RMB9,109,000 has been transferred from equity-settled share-based payment reserve to share premium account.

The remaining 8,596,800 shares are issued but have not vested yet. The fair value of the unvested shares issued was RMB69,873,000, of which RMB23,000 (equal to HKD29,000) was credited to share capital and the excess of the fair value over the nominal value of the total number of ordinary shares issued of RMB69,850,000 were credited to the share premium account of the Company.

(ii) On 8 May 2018, 42,981,000 ordinary shares were issued for VKC Consultancy Service Consideration Shares as set out in note 27(d). According to the VKC Consultancy Service Consideration Shares scheme, 8,596,200 shares issued are vested directly as performance conditions satisfied. According to the accounting policy as set out in note 1(v), RMB23,000 (equally to HKD29,000) was credited to share capital and RMB49,827,000 has been transferred from equity-settled share-based payment reserve to share premium.

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

The remaining 34,384,800 shares are issued but have not vested yet. The fair value of the unvested shares issued was RMB279,474,000, of which RMB93,000 (equal to HKD114,000) was credited to share capital and the excess of the fair value over the nominal value of the total number of ordinary shares issued of RMB279,381,000 were credited to the share premium account of the Company.

(c) Reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) PRC statutory reserve

Pursuant to the Articles of Association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at 10% of profit after tax determined in accordance with accounting rules and regulations of the PRC until the reserve balance reaches 50% of the registered capital. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the PRC subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

(iii) Exchange reserve

The exchange reserve comprises all relevant exchange differences arising from the translation of the financial statements of operations with functional currency other than Renminbi. The reserve is dealt with in accordance with the accounting policy set out in note 1(z).

(iv) Equity-settled share-based payment reserve

Share-based payment reserve comprises the following:

- The fair value of services provided by parties other than employees to the Group in connection with the listing of the Company and the services were settled by equity instrument of the Company. The relevant services are recognised in accordance with IFRS 2, *Share-based payment*;
- The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(v); and
- The portion of the grant date fair value of unreleased Incentive Shares and Management Shares granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(v).

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Reserves (Continued)

(v) Other reserves

Other reserves are resulted from:

(a) transactions with owners in their capacity as the equity owners. The balance comprises capital reserve surplus/deficit arising from the difference between the deemed consideration and the corresponding net assets value at the respective date of the transactions; and

(b) the obligation to the payment of consideration for the acquisition of 8.36% equity interest of Shenzhen Sinoagri.

(vi) Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment immediately before its reclassification as investment property.

(vii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see note 1(g)).

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concerns so it can continue to provide returns for shareholders and benefits for other stakeholders by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and securities afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as interest-bearing loans and borrowings less fixed deposits with banks with original maturity over three months, pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity.

The Group's strategy is to maintain the adjusted net debt-to-capital ratio not exceed 75%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Capital management (Continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2018 and 2017 was as follows:

	Note	2018 RMB'000	2017 RMB'000
Current liabilities:			
Interest-bearing borrowings	25	9,255,114	5,572,061
Non-current liabilities:			
Interest-bearing borrowings	25	4,970,830	5,422,356
Total debt		14,225,944	10,994,417
Less: Fixed deposits with banks with original maturity over three months		203,287	132,602
Pledged bank deposits	22	3,066,232	2,553,901
Cash and cash equivalents	23	1,118,626	1,283,647
Adjusted net debt		9,837,799	7,024,267
Total equity attributable to equity shareholders of the Company		18,779,592	17,781,210
Adjusted net debt-to-capital ratio		52.39%	39.51%

29 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Capital management (Continued)

Particularly for guarantee operation, the Group monitors regularly the residual balance of outstanding guarantees or/and credit loans for single customers and multiples of the total outstanding guarantees or/and credit loans in relation to paid-in/share capital of companies in the Group engaging guarantee or/and credit loan business respectively, so as to keep the capital risk within an acceptable limit. The decision to manage the share capital of companies in the Group to meet the needs of developing guarantee or/and credit loans business rests with the directors.

Except guarantee operation, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

(e) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

The directors of the Company did not recommend the payment of any dividend for the year ended 31 December 2018 (2017: HKD2.58 cents per ordinary share).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD 2.58 cents per share (2017: nil)	246,653	–

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investment in other entities and movement in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade debtors and other receivables and loans and factoring receivables. The Group's exposure to credit risk arising from cash and cash equivalents, fixed deposits with banks with original maturity over three months, pledged bank deposits and bills receivable is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Except for the financial guarantees given by the Group as set out in note 32, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 32.

Trade debtors and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, nil (2017: 1%) and 1% (2017: 2%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the segments of supply chain management and trading and the E-commerce and financing services.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivables are due within 0-360 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade debtors and other receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors and other receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current or less than one year past due	4%	4,104,421	159,010
One to two years past due	21%	459,921	95,248
Two to three years past due	39%	73,343	28,793
Over three years past due	70%	94,050	65,628
		4,731,735	348,679

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Trade debtors and other receivables (Continued)

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(m)(i) – policy applicable prior to 1 January 2018). As at 31 December 2017, trade debtors of RMB100,608,000 were determined to be impaired. The aging analysis of trade debtors and bill receivables that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	1,733,164
1 year past due	198,003
Over 1 year past due	126,541
	2,057,708

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade debtors and other receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at 31 December 2017 under IAS 39	16,307	–
Impact on initial application of IFRS 9 (note 1(c)(i))	279,178	–
Balance at 1 January	295,485	–
Addition through acquisition of subsidiaries	513	11,446
Amounts written off during the year	(135,197)	(540)
Impairment losses recognised during the year (note 5(c))	187,878	5,401
Balance at 31 December	348,679	16,307

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables

The Group has put in place continuous monitoring mechanism, with regular reporting of credit exposures to internal management of credit risk. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

Measurement of ECL

Based on whether there is a significant increase in credit risk and whether the asset has incurred credit impairment, the Group measures allowances for loss of different assets with 12-month ECL or lifetime ECL respectively.

The Group measures loss provision of the financial instruments that meet the following conditions according to the amount of expected credit losses within the next 12 months, and measures loss allowances for other financial instruments in accordance with the amount of lifetime expected credit losses.

– The financial instruments that are determined to have low credit risk at the reporting date; or

– The financial instruments for which credit risk has not increased significantly since initial recognition.

(i) Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial instruments has increased significantly.

If one or more of the following criteria are met:

– The credit spread increases significantly;

– Significant changes with an adverse effect that have taken place in the counterparty's business, financial and economic status;

– Application of a grace period or debt-restructuring;

– Significant changes with an adverse effect in the counterparty's operating conditions;

– Less value of the collaterals (for the collateralised loans and pledged loans only);

– Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;

– The payment is more than 30 days past due.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

As at December 31, 2018, the Group has not considered that any of its financial instruments has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

(ii) Definition of "default" and "credit-impaired assets"

When a financial instrument meets one or more of the following conditions, the Group considers the financial asset to be in default, and the criteria are consistent with the definition of credit-impaired assets.

(a) Quantitative criterion

The financial asset is more than 90 days past due.

(b) Qualitative criterion

The counterparty meets the criterion of "having difficulty in repayment", which indicates that the counterparty has significant financial difficulty, including:

– the counterparty has been in the grace period for a long time;

– the death of the counterparty;

– the counterparty enters bankruptcy;

– the counterparty breaches (one or more) terms of the contract that the debtor shall be subject to;

– the disappearance of an active market for the related financial asset because of financial difficulties faced by the counterparty;

– the creditor make concessions due to the financial difficulties faced by the counterparty;

– it becomes probable that the counterparty will enter bankruptcy;

– a higher discount was obtained during the acquisition of assets, and the assets has incurred credit loss when they are acquired.

The above criteria apply to all financial instruments of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(iii) Notes to the parameters, assumptions and valuation techniques

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

– PD refers to the likelihood that a counterparty will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

– EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

– LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the expected credit losses by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the expected credit losses for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

– In respect of the loans and factoring receivables, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the counterparty.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(iii) Notes to the parameters, assumptions and valuation techniques (Continued)

– The Group determines the 12-month LGD and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

– Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD.

The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios,including GDP, increase in RMB loans, PPI, etc..

There has been no significant changes in the valuation techniques and key assumptions during the reporting period.

(iv) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at December 31 is disclosed in Note 32.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) The credit quality of financial assets is analysed as follows:

(a) Analysed by nature

	31 December 2018 RMB'000
Loans and factoring receivables	
Corporate loans	2,297,453
Corporate factoring	436,354
Personal business loans	655,228
Gross loans and factoring receivables	3,389,035
Accrued interest	112,752
Less: Allowances for impairment losses on loans and factoring receivables	153,859
Net loans and factoring receivables	3,347,928

	31 December 2017 RMB'000
Loans and factoring receivables	
Corporate loans	1,764,451
Corporate factoring	743,900
Personal business loans	630,179
Gross loans and factoring receivables	3,138,530
Less: Allowances for impairment losses	
– Individually assessed	35,704
– Collectively assessed	16,864
Total allowances for impairment losses	52,568
Net loans and factoring receivables	3,085,962

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) The credit quality of financial assets is analysed as follows: (Continued)

(b) Analysed by industry sector

	31 December 2018		
	Amount RMB'000	Percentage	Loans and factoring receivables secured by collaterals RMB'000
Commodities trading	2,224,845	66%	1,515,156
Leasing and commercial services	142,608	4%	7,608
Wholesale and retail	55,724	2%	–
Manufacturing	280,622	8%	–
Transportation, storage and postal service	30,009	1%	–
Sub-total of corporate loans and factoring	2,733,808	81%	1,522,764
Personal business loans	655,227	19%	655,228
Gross loans and factoring receivables	3,389,035	100%	2,177,992

	31 December 2017		
	Amount RMB'000	Percentage	Loans and factoring receivables secured by collaterals RMB'000
Commodities trading	1,596,866	51%	1,596,866
Leasing and commercial services	356,339	11%	–
Wholesale and retail	381,807	12%	–
Manufacturing	90,570	3%	–
Transportation, storage and postal service	82,769	3%	–
Sub-total of corporate loans and factoring	2,508,351	80%	1,596,866
Personal business loans	630,179	20%	630,179
Gross loans and factoring receivables	3,138,530	100%	2,227,045

All of the loans and factoring receivables as at 31 December 2018 and 2017 were within the PRC.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) The credit quality of financial assets is analysed as follows: (Continued)

(c) Analysed by type of collateral

	31 December 2018 RMB'000
Unsecured	1,171,543
Guaranteed	39,500
Collateralised	2,177,992
Gross loans and factoring receivables	3,389,035
Accrued interest	112,752
Less: Allowances for impairment losses on loans and factoring receivables	153,859
Net loans and factoring receivables	3,347,928

	31 December 2017 RMB'000
Unsecured	743,900
Guaranteed	167,585
Collateralised	2,227,045
Gross loans and factoring receivables	3,138,530
Less: Allowances for impairment losses	
– Individually assessed	35,704
– Collectively assessed	16,864
Total allowances for impairment losses	52,568
Net loans and factoring receivables	3,085,962

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) **The credit quality of financial assets is analysed as follows: (Continued)**

(d) Overdue loans and factoring receivables analysed by overdue period

	31 December 2018			
	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Collateralised	1,973	7,673	225,778	235,424
As a percentage of gross loans and factoring receivables	0.06%	0.23%	6.66%	6.95%

	31 December 2017			
	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Collateralised	–	10,644	175,371	186,015
As a percentage of gross loans and factoring receivables	–	0.34%	5.59%	5.93%

Overdue loans and factoring receivables represent loans or factoring, of which the whole or part of the principal or interest are overdue for one day or more.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) The credit quality of financial assets is analysed as follows: (Continued)

(e) Allowances for impairment losses

	31 December 2018			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Gross loans and factoring receivables	1,911,833	981,156	496,046	3,389,035
Accrued interest receivable	54,385	44,300	14,067	112,752
Less: Allowances for impairment losses	6,554	4,004	143,301	153,859
Carrying amount of loans and factoring receivables	1,959,664	1,021,452	366,812	3,347,928

	31 December 2017			
		Allowances for impaired loans and factoring receivables		
	Allowances for loans and factoring receivables which are collectively assessed RMB'000	Which are collectively assessed RMB'000	Which are individually assessed RMB'000	Total RMB'000
Gross loans and factoring receivables	2,952,515	112,427	73,588	3,138,530
Less: Allowances for impairment losses	–	16,864	35,704	52,568
Carrying amount of loans and factoring receivables	2,952,515	95,563	37,884	3,085,962

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) The credit quality of financial assets is analysed as follows: (Continued)

(f) Movements of allowances for impairment losses

	Allowances for impairment losses RMB'000
As at 31 December 2017	52,568
Impact on initial application of IFRS 9	23,747
As at 1 January 2018	76,315

	Year ended 31 December 2018			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
As at 1 January	14,773	886	60,656	76,315
Transferred				
– to lifetime ECL not credit-impaired	(286)	286	–	–
– to lifetime ECL credit-impaired	(389)	–	389	–
Charged for the year	–	2,832	82,256	85,088
Recoveries	(7,544)	–	–	(7,544)
As at 31 December	6,554	4,004	143,301	153,859

		Year ended 31 December 2017 Allowances for impaired loans and factoring receivables		
	Allowances for loans and factoring receivables which are collectively assessed RMB'000	Which are collectively assessed RMB'000	Which are individually assessed RMB'000	Total RMB'000
As at 1 January	–	–	–	–
Addition through acquisition of subsidiaries	–	5,378	32,034	37,412
Charged for the year	–	11,486	3,670	15,156
As at 31 December	–	16,864	35,704	52,568

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) The credit quality of financial assets is analysed as follows: (Continued)

(g) The credit quality of financial assets is analysed as follows:

	31 December 2018 Loans and factoring receivables RMB'000
Balance of financial assets that are assessed for expected credit losses over the next 12 months	
– Neither overdue nor credit-impaired	1,911,833
Sub-total	1,911,833
Balance of financial assets that are not credit impaired and assessed for lifetime expected credit losses	
– Neither overdue nor credit-impaired	981,156
Sub-total	981,156
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses	
– Overdue and credit-impaired	235,424
– Credit-impaired but not overdue	260,622
Sub-total	496,046
Accrued interest	112,752
Less: Allowances for impairment losses	153,859
Total	3,347,928

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Loans and factoring receivables (Continued)

(v) The credit quality of financial assets is analysed as follows: (Continued)

(g) The credit quality of financial assets is analysed as follows: (Continued)

	31 December 2017 Loans and factoring receivables RMB'000
Impaired	
Individually assessed gross amount	73,588
Allowances for impairment losses	(35,704)
Sub-total	37,884
Collectively assessed gross amount	112,427
Allowances for impairment losses	(16,864)
Sub-total	95,563
Neither overdue nor impaired	
Gross amount	2,952,515
Allowances for impairment losses	–
Sub-total	2,952,515
Total	3,085,962

The fair value of collaterals held against loans and factoring receivables credit-impaired as at 31 December 2018 and impaired as at 31 December 2017 amounted to RMB181,609,000 and RMB220,000,000, respectively. The collaterals mainly include sugar and other commodities. The fair value of collaterals were estimated by the Group based on the market prices obtained from secondary markets, adjusted in light of disposal experience and current market conditions.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Cash management of the Company and its subsidiaries are substantially centralised at the Group level. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing borrowings	9,824,553	3,629,371	1,515,481	300,949	15,270,354	14,225,944
Trade and other payables (excluding receipts in advance)	10,690,923	21,261	–	–	10,712,184	10,712,184
Amounts due to related parties	956,391	–	–	–	956,391	956,391
	21,471,867	3,650,632	1,515,481	300,949	26,938,929	25,894,519

	2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing borrowings	6,844,356	3,110,669	3,516,939	751,617	14,223,581	10,994,417
Trade and other payables (excluding receipts in advance)	11,231,235	23,369	–	–	11,254,604	11,254,604
Amounts due to related parties	583,409	–	–	–	583,409	583,409
	18,659,000	3,134,038	3,516,939	751,617	26,061,594	22,832,430

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and fixed notes expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The interest rates and terms of repayment of bank loans of the Group are disclosed in note 25 to the consolidated financial statements. The Group does not carry out any hedging activities to manage its interest rate exposure.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2018		2017	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Interest-bearing borrowings	4.00%-11.03%	10,400,162	2.50%-11.00%	6,830,343
Variable rate borrowings:				
Interest-bearing borrowings	4.44%-10.10%	3,825,782	4.75%-13.00%	4,164,074
Total borrowings		14,225,944		10,994,417
Fixed rate borrowings as a percentage of total borrowings		73%		62%

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB14,680,000 (2017: RMB15,615,000) in response to the general increase/decrease in interest rates, which has not taken into account of interest capitalisation to property for sales.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis (Continued)

For the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2017.

(d) Currency risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The management does not expect that there will be any significant currency risk for the Group for both years ended 31 December 2018 and 2017.

(e) Equity price risk

The Group is exposed to equity price changes arising from listed equity investments classified as financial assets at fair value through profit or loss (see note 18).

The Group's listed investments are listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the stock market index as well as the Group's liquidity needs.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the contingent consideration of the Group for the acquisition of Shenzhen Sinoagri.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Equity price risk (Continued)

At 31 December 2018, it is estimated that an increase/(decrease) of 10% in the relevant stock market index (for listed investments) and the Company's own share price (for the contingent consideration) as applicable, with all other variables held constant, would have increased/(decreased) the Group's profit after tax (and retained profits) as follows:

	2018		2017	
		Effect on profit after tax and retained profits RMB'000		Effect on profit after tax and retained profits RMB'000
Change in the relevant equity price risk variable:				
Increase	10%	124,032	10%	211,167
Decrease	(10%)	(124,032)	(10%)	(211,167)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2017.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into			Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements								
Assets:								
– Listed equity securities	968,187	968,187	–	–	2,123,751	2,123,751	–	–
– Warrant	–	–	–	–	3	–	3	–
– Wealth management products and trust products	3,388,360	–	3,388,360	–	2,761,540	–	2,761,540	–
– Forward contracts	141,051	–	141,051	–	182,408	–	182,408	–
– Contingent consideration	287,757	–	–	287,757	6,915	–	–	6,915
– Equity investments at fair value through other comprehensive income	8,702	–	8,702	–	–	–	–	–
Liabilities:								
– Forward contracts	141,051	–	141,051	–	450,140	267,732	182,408	–
– Contingent consideration	1,276	–	–	1,276	–	–	–	–
– Convertible redeemable preference shares of a subsidiary	59,024	–	–	59,024	–	–	–	–

During the year ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of equity investment at fair value through other comprehensive income is determined under the market approach.

The fair value of forward contract is determined under discounted cash flow method.

The fair value of wealth management products and trust products in Level 2 is determined by discounting the estimated future cash flows at risky rate, which is the benchmark interest rate plus the risk premium as at the end of the reporting period.

Information about Level 3 fair value measurements

	Valuation Significant techniques	Significant unobservable inputs	Input value
Contingent consideration for acquisition of Shenzhen Sinoagri	Probabilistic method	Occurrence probability of financial forecasts, financial forecast	80% (base case); 10% (bull and bear cases)
Contingent consideration for acquisition of HSH	Probabilistic method	Occurrence probability of financial forecasts, financial forecast	70% (base case); 20% (bull case); 10% (bear case)
Convertible redeemable preference shares	Option-pricing model	Financial forecasts	Not applicable

The movements during the year in the balances of these Level 3 fair value measurements are as follows:

Contingent consideration

	2018 RMB'000	2017 RMB'000
Balance at 1 January	6,915	–
Assumed in a business combination	42,914	20,892
Net change in fair value	251,298	(13,977)
Settlement	(14,646)	–
Balance at 31 December	286,481	6,915

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(f) Fair value measurement (Continued)

(i) *Financial assets and liabilities measured at fair value (Continued)*

	RMB'000
Convertible redeemable preference shares of a subsidiary	
Balance at 31 December 2017	–
Assumed in a business combination (note 34)	79,737
Exchange difference	5,767
Redemption	(12,431)
Net change in fair value (note 4)	(14,049)
Balance at 31 December 2018	59,024

(ii) *Fair values of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 31 December 2017.

31 COMMITMENTS

(a) Operating lease commitment

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	15,106	59,746
After 1 year but within 5 years	20,639	16,052
	35,745	75,798

The Group leases a number of building facilities under operating leases. The leases typically run for an initial period of 5 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

(b) Capital commitments on development costs

As at 31 December 2018, the Group's capital commitments in respect of investment properties under development and properties under development are as follows:

	2018 RMB'000	2017 RMB'000
Contracted but not provided for		
– Investment properties under development	137,887	112,354
– Properties under development	1,590,514	1,133,544
	1,728,401	1,245,898

32 CONTINGENT LIABILITIES

	2018 RMB'000	2017 RMB'000
Bank financial guarantees (i)	171,088	104,740
Other non-bank financial guarantees (i)	96,980	36,950
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties (ii)	688,759	845,189
Total maximum guarantees issued	956,827	986,879

(i) One of the Group's wholly-owned subsidiary named Wuhan North Hankou Guarantee Investment Co., Ltd. ("Wuhan Guarantee Investment") is principally engaged in provision of loan guarantee services to enterprises in the PRC. The guarantee are provided to lenders (beneficiary of the guarantee) and guarantee fee are charged to the borrowers based on the loan amounts. Wuhan Guarantee Investment is required to make payments to reimburse the beneficiary of the guarantee for the loss incurs if a specified borrower fails to make payment when due in accordance with the terms stipulated in the relevant agreements.

(ii) The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

The directors of the Company consider that it is not probable that the Group will sustain a loss under these guarantees as the Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The directors of the Company also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

32 CONTINGENT LIABILITIES (Continued)

The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors of the Company.

33 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere above, the Group and the Company entered into the following material related party transactions.

Ultimate Controlling Party refer to Mr. Yan Zhi. He is the co-chairman, co-chief executive officer and an executive director of the Group.

(a) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8 is as follows:

	2018 RMB'000	2017 RMB'000
Wages, salaries and other benefits	13,587	9,843
Contribution to defined benefit retirement scheme	433	211
Equity-settled share-based payment expenses	71,945	65,259
	85,965	75,313

The above remuneration to key management personnel is included in "staff costs" (note 5(b)).

(b) Other transactions with related parties

	2018 RMB'000	2017 RMB'000
(i) Advances from related parties		
– Immediate Parent	459,853	–
– Ultimate Controlling Party	–	200,000
– Associates	2,260	371
– Joint ventures	30,000	60,939
– Non-controlling interests of subsidiaries	–	1,250
– Entities controlled by Ultimate Controlling Party	316,640	11,315
– Entities controlled by non-controlling interests of subsidiaries	–	370,352
	808,753	644,227

Advances from related parties are unsecured, interest-free and repayable on demand.

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

	2018 RMB'000	2017 RMB'000
(ii) Payments to related parties		
– Immediate Parent	93,753	469,512
– Key management personnel	10,000	–
– Ultimate Controlling Party	–	200,000
– Associates	–	20,277
– Joint ventures	177,634	85,969
– Non-controlling interests of subsidiaries	1,253	–
– Entities controlled by Ultimate Controlling Party	39,695	11,223
– Entities controlled by non-controlling interests of subsidiaries	114,200	256,152
	436,535	1,043,133

	2018 RMB'000	2017 RMB'000
(iii) Advances to related parties		
– Associates	76,731	47,807
– Joint ventures	1,098,732	309,479
– Non-controlling interests of subsidiaries	98	30,228
– Entities controlled by Ultimate Controlling Party	4,478	1,508
– Key management personnel	5,921	–
	1,185,960	389,022

Advances to related parties are unsecured, interest free and repayable on demand.

	2018 RMB'000	2017 RMB'000
(iv) Repayment from related parties		
– Associates	10,872	27,512
– Joint ventures	1,038,467	298,670
– Non-controlling interests of subsidiaries	–	229
– Entities controlled by Ultimate Controlling Party	2,648	331
– Key management personnel	4,783	–
	1,056,770	326,742

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

	2018 RMB'000	2017 RMB'000
(v) Rental income		
– Entities controlled by Ultimate Controlling Party	36,653	19,712

	2018 RMB'000	2017 RMB'000
(vi) Place deposits in		
– a bank significantly influenced by Ultimate Controlling Party	14,256,179	1,742,208

	2018 RMB'000	2017 RMB'000
(vii) Withdraw deposits from		
– a bank significantly influenced by Ultimate Controlling Party	14,420,391	1,538,054

	2018 RMB'000	2017 RMB'000
(viii) Loans guaranteed by		
– Entities controlled by Ultimate Controlling Party (note 25(a))	140,000	160,000

No guarantee income was charged by related parties for the guarantee of loans.

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties (Continued)

	2018 RMB'000	2017 RMB'000
(ix) Sales to related parties		
– Associates	280,356	11,409
– Non-controlling interests of subsidiaries	–	7,667
– Entities controlled by Ultimate Controlling Party	17	–
– Companies controlled by non-controlling interests of subsidiaries	–	901
	280,373	19,977

	2018 RMB'000	2017 RMB'000
(x) Purchase from related parties		
– Associates	167,827	–
– Non-controlling interests of subsidiaries	–	1,680
	167,827	1,680

	2018 RMB'000	2017 RMB'000
(xi) Logistics and marketing services provided to a related party		
– An associate	111,796	–

(c) Balance with related parties

	2018 RMB'000	2017 RMB'000
Factoring receivables		
– an entity controlled by Ultimate Controlling Party	20,167	–

The factoring receivables were unsecured, repayable within one year and bear interest of 9% per annum.

	2018 RMB'000	2017 RMB'000
Loans to		
– associates	61,278	–
– non-controlling interests of a subsidiary	7,506	–
	68,784	–

Loans to related parties bear interest ranking from 5% to 11%.The credit term are one year. Loans of RMB51,291,000 are secured by agriculture products. The remaining loans are unsecured.

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Balance with related parties (Continued)

	2018 RMB'000	2017 RMB'000
Trade prepayment to		
– associates	23,963	–
– an entity controlled by Ultimate Controlling Party	17	–
	23,980	–

	2018 RMB'000	2017 RMB'000
Amounts due from related parties		
– associates	86,154	30,855
– joint ventures	71,139	10,874
– non-controlling interests of subsidiaries	30,603	34,360
– entities controlled by Ultimate Controlling Party	4,259	2,427
– entities controlled by non-controlling interests of subsidiaries	–	4,244
– key management personnel	1,138	–
	193,293	82,760

The amounts due from related parties are unsecured, interest free and repayable on demand.

	2018 RMB'000	2017 RMB'000
Deposits in		
– a bank significantly influenced by Ultimate Controlling Party	39,942	204,154

	2018 RMB'000	2017 RMB'000
Contract liabilities – Trade of agriculture products		
– an associate	27,439	–

	2018 RMB'000	2017 RMB'000
Interest-bearing borrowings		
– an associate (note 25(b))	11,000	–

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Balance with related parties (Continued)

	2018 RMB'000	2017 RMB'000
Amounts due to related parties		
– associates	2,260	–
– Joint ventures	–	146,870
– non-controlling interests of subsidiaries	307,026	308,279
– entities controlled by Ultimate Controlling Party	277,105	160
– entities controlled by non-controlling interests of subsidiaries	–	114,200
– Ultimate controlling party	3,900	3,900
– Immediate Parent	366,100	–
– Key management personnel	–	10,000
	956,391	583,409

The amounts due to related parties are unsecured, interest-free and repayable on demand.

(d) Applicability of the Listing Rules relating to connected transactions

Save for the related party transactions in respect of transactions 33(b)(v), 33(b)(vi) and 33(b)(vii) above, none of the related party transactions set out above constitutes connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For details of the related party transactions 33(b)(v), 33(b)(vi) and 33(b)(vii) above, please refer to the section "Connected Transaction" of the Directors' Report. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions of the Group.

34 ACQUISITION OF SUBSIDIARIES

Acquisition of HSH

On 11 October 2017, the Group entered into an agreement in relation to acquisition of 209,581,251 ordinary shares in HSH (equivalent to 66.21% of total equity interest of HSH) at an aggregate consideration of US$29,500,000 (equivalent to approximately RMB192,759,000). HSH, a company incorporated in the Cayman Islands with limited liability, together with its subsidiaries, is principally engaged in the trading of chemical and plastic raw materials and operating the information services business. The transaction was approved by the shareholder of the Company on 5 March 2018 and was completed on 28 March 2018.

The acquisition of HSH involve post-acquisition performance-based contingent considerations. IFRS3 (Revised) "Business Combinations" requires the recognition of the fair value of those contingent considerations as of their respective dates of business combination as part of the consideration transferred in exchange for the acquired subsidiaries/businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired subsidiaries/businesses and significant judgment on time value of money. Contingent considerations shall be re-measured at their fair value resulting from events or factors which emerge after the date of business combination, with any resulting gain or loss recognised in the consolidated statement of profit or loss in accordance with IFRS 3 (Revised).

34 ACQUISITION OF SUBSIDIARIES (Continued)

From the post acquisition date to 31 December 2018, HSH contributed revenue of RMB11,044,015,000 and loss of RMB30,244,000 to the Group's results. If the acquisition had occurred on 1 January 2018, management estimates that consolidated revenue would have been RMB58,571,610,000 and consolidated profit for the year would have been RMB1,265,625,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

	Pre-acquisition carrying amount RMB'000	Fair value adjustment RMB'000	Recognised value on acquisition RMB'000
Property, plant and equipment	408	–	408
Intangible assets	5,581	36,790	42,371
Pledged bank deposits	57	–	57
Cash and cash equivalents	15,139	–	15,139
Trade and other receivables	299,326	–	299,326
Inventories	57,832	–	57,832
Contract liabilities	(57,855)	–	(57,855)
Financial liabilities at fair value through profit or loss	(383)	–	(383)
Trade and other payables	(96,231)	–	(96,231)
Bank loans	(117,563)	–	(117,563)
Current tax liabilities	(13,247)	–	(13,247)
Convertible redeemable preference shares	(79,737)	–	(79,737)
Deferred tax liabilities	–	(9,198)	(9,198)
Total identifiable net assets acquired	13,327	27,592	40,919
Non-controlling interests (33.79%)			13,827
Proportion of ownership (66.21%)			27,092
Consideration			
– Cash paid			133,883
– Need to be settled in cash			42,920
– Contingent consideration (note)			(42,914)
Total fair value of the consideration			133,889
Goodwill arising on acquisition			106,797

Note:

Contingent consideration including, (i) a share pledge, under which HSH Group Limited pledged a total of 106,962,000 shares (33.79%) of HSH to the Group; and (ii) an amount of USD1,243,000 will be held in escrow by the Group. One third of the total number of pledged shares (i.e. 35,654,000 shares in HSH) and one third of the withheld consideration (i.e. USD414,000) shall be reserved for the settlement of any shortfall arising from the performance guarantee for each of the financial year ended/ending 31 December 2017, 2018 and 2019.

34 ACQUISITION OF SUBSIDIARIES (Continued)

Goodwill is mainly attributable to the skills and technical talent of HSH's work force and the synergies expected to be achieved from integrating HSH into the Group's existing supply chain management and trading business. None of the goodwill recognised is expected to be deductible for tax purposes. Non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The valuation techniques used for measuring the fair value of material asset acquired and contingent consideration were as follows:

Assets Acquired	Valuation Approach and Methodology
Intangible assets-customer relationship	Estimated using excess earning approach, under which associated contributory assets returns are deduced from projected income stream to measure cash flow attributable to subject assets, and discounted projected excess earning by risk-adjusted discount rate.
Intangible assets-trademarks	Estimated using relief from royalty approach, under which projected royalty income is estimated based on comparable royalty rates, and discounted projected after-tax royalty income by risk-adjusted discount rate.
Contingent consideration	The fair value of contingent consideration is determined using probabilistic method based on different scenarios of financial forecasts of HSH and respective occurrence probability.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Interests in subsidiaries	14	3,066,815	2,979,940
Current assets			
Cash and cash equivalents		57,987	107,475
Trade and other receivables, prepayments		1,205,490	1,296,950
		1,263,477	1,404,425
Current liabilities			
Trade and other payables		415,408	315,040
Net current assets		848,069	1,089,385
Total assets less current liabilities		3,914,884	4,069,325
NET ASSETS		3,914,884	4,069,325
CAPITAL AND RESERVES	29		
Share capital		32,437	32,292
Reserves		3,882,447	4,037,033
TOTAL EQUITY		3,914,884	4,069,325

36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2018, the directors consider the Immediate Parent and Ultimate Controlling Party of the Group to be Zall Development Investment Company Limited ("Zall Development Investment") and Mr.Yan Zhi respectively. Zall Development Investment does not produce financial statements available for public use.

(Expressed in Renminbi unless otherwise indicated)

37 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvement to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16, *Leases*

As disclosed in note 1(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 31(a), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB35,745,000 for properties, the majority of which is payable between 1 and 5 years after the reporting date. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB33,430,000, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

THE GROUP'S PROPERTY PORTFOLIO SUMMARY — MAJOR PROPERTIES UNDER DEVELOPMENT

	Project	Location	Expected date of completion	Intended use	Site area (sq.m.)	Gross Floor Area (sq.m.)	Group's interest (%)	Compleiton percentage
1	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economics and Technology Development Zone, Technology Development Zone, Province, PRC	Dec-2020	Commercial	256,720	318,366	100%	10%-80%
2	No. 1 Enterprise Community (Phase IV)	Te No. 1 Chutian Road, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Dec-2020	Residential	394,882	618,883	100%	10%
3	Zall Life City – Hupan Haoting Residences (Phase II)	Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei	Jun-2020	Residential	59,793	117,102	100%	76%
4	No.1 Enterprise Community – Changsha (Phase II)	Zhiji Village, Xingangzhen Kaifu District, Changsha, Hunan Province, PRC	Jun-2024	Commercial	120,652	278,352	80%	11%
5	Portion of Jingzhou Zall City	Jinan Zhen, Sanhong Village, Jingzhou District, Jingzhou City, Hubei Province, PRC	Jun-2020	Commercial	137,802	229,006	100%	94%
6	Tianjin E-commerce Mall (Area C)	Xijing District, Qingwu Xuefu Industrial Park, Tianjin City, PRC	Dec-2019	Commercial and residential	24,505	39,244	100%	90%
7	Wuhan Inland Port Centre (Phase I)	Shigang Village, Yangluo Street, Xinzhou District, Wuhan, Hubei Province, PRC	Aug-2019	Logistic Center	364,358	126,857	100%	75%

Major Properties Information

As at 31 December 2018

THE GROUP'S PROPERTY PORTFOLIO SUMMARY — MAJOR COMPLETED PROPERTIES HELD FOR SALE

	Project	Location	Existing use	Gross Floor Area (sq.m.)	Group's interest (%)
1	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Shops and residential	318,369	100%
2	Portion of North Hankou International Trade Center – Automobile Big World	Liudian and Shekou Villages, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Shops	26,268	100%
3	Portion of No. 1 Enterprise Community (Phase I, II & III)	Te No. 1 Chutian Road, Panlongcheng Economics Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Office	55,828	100%
4	Zall Life City – Hupan Haoting Residences	Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Residential	24,092	100%
5	Portion of Jingzhou Zall City	Jinan Zhen, Sanhong Village, Jingzhou District, Jingzhou City, Hubei Province, PRC	Shops	71,725	100%
6	No. 1 Enterprise Community – Changsha (Phase I)	Zhiji Village, Xingangzhen Kaifu District, Changsha, Hunan Province, PRC	Office	51,228	80%

THE GROUP'S PROPERTY PORTFOLIO SUMMARY — MAJOR PROPERTIES HELD FOR INVESTMENT

	Project	Location	Stage of completion	Lease Term of land	Approximate gross floor area (sq.m.)	Group's interest (%)
1	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	1,318,659	100%
2	Portion of North Hankou International Trade Center	Te No. 1 Chutian Road, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Under development	Medium	3,898	100%
3	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	201,702	100%
4	North Hankou Logistics Center	Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	25,550	100%
5	North Hankou Logistics Center	Jiangjunlu street, Dongxihu District, Wuhan, Hubei Province, PRC	Under development	Medium	18,354	100%
6	Portion of No. 1 Building Portion of No. 1 Building Community	Te No. 1 Chutian Road, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	45,672	100%
7	Portion of Commercial Street of No. 1 Enterprise Community	No. 18 Julong Road, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	9,315	100%
8	Portion of Tianjin E-commerce Mall (Area A & B)	Phase I, International Trade Centre, Tianjin E-commerce City, 32 Chuangxin Road, Xijing District, Tianjin City, PRC	Under development	Medium	519,458	100%

Financial Summary

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Result					
Revenue	56,116,072	22,249,176	1,213,375	1,029,482	1,986,129
Gross Profit	1,559,600	1,012,255	361,307	271,210	976,104
Net valuation gain on investment properties	3,865,192	3,021,326	1,275,697	1,237,742	2,157,336
Profit for the year attributable to:					
Equity shareholders of the Company	1,371,304	2,379,077	2,048,951	2,037,727	1,572,819
Non-controlling interests	(97,397)	(22,595)	7,620	8,261	37,905
Profit for the year	1,273,907	2,356,482	2,056,571	2,045,988	1,610,724
Financial position					
Total assets	53,081,118	47,343,628	29,747,649	23,769,619	22,176,014
Total liabilities	33,472,305	28,682,741	17,608,417	13,459,088	13,613,874
Non-controlling interests	829,221	879,677	34,685	842,063	644,239
Total equity attributable to equity shareholders of the Company	18,779,592	17,781,210	12,104,547	9,468,468	7,917,901
Total Equity	19,608,813	18,660,887	12,139,232	10,310,531	8,562,140