順客隆
Simple kind life

中國順客隆控股有限公司
CHINA SHUN KE LONG HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 974

Annual Report 2019

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Sun Kin Ho Steven *(Chairman & Chief Executive Officer)*
Mr. Han Wei *(Chief Financial Officer)*

Non-Executive Director

Mr. Wang Fu Lin

Independent Non-Executive Directors

Mr. Chong Kin Ho
Mr. Tung Chia Hung Michael
Mr. Chen Cheng Lien

AUDIT COMMITTEE

Mr. Chong Kin Ho *(Chairman)*
Mr. Tung Chia Hung Michael
Mr. Chen Cheng Lien

REMUNERATION COMMITTEE

Mr. Tung Chia Hung Michael *(Chairman)*
Mr. Chen Cheng Lien
Mr. Sun Kin Ho Steven

NOMINATION COMMITTEE

Mr. Sun Kin Ho Steven *(Chairman)*
Mr. Tung Chia Hung Michael
Mr. Chen Cheng Lien

AUTHORISED REPRESENTATIVES

Mr. Sun Kin Ho Steven
Mr. Qiu Minghao

COMPANY SECRETARY

Mr. Qiu Minghao

COMPANY'S WEBSITE

www.skl.com.cn

STOCK CODE

974

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Floor 3, Huale Building
No. 60 Hebin North Road
Lecong Town, Shunde District, Foshan
Guangdong Province, The PRC

PLACE OF BUSINESS IN HONG KONG

Suites 06–12
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Nos. 6–8 Harbour Road
Wan Chai, Hong Kong

REGISTERED OFFICE IN THE CAYMAN ISLANDS

Vistra (Cayman) Limited
P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman
KY1-1205
Cayman Islands

PRINCIPAL BANKERS

Agricultural Bank of China Limited Shunde Lecong sub-branch
Guangdong Shunde Rural Commercial Bank Company Limited Lecong sub-branch
China Construction Bank Corporation, Shunde Huabin Sub-branch
China Everbright Bank Hong Kong Branch

AUDITOR

SHINEWING (HK) CPA Limited
43/F., Lee Garden One, 33 Hysan Avenue
Causeway Bay, Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong

FINANCIAL SUMMARY

Results	For the year ended 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Revenue	1,039,614	1,087,872	954,164	986,998	**945,221**
Gross profit	200,598	153,092	147,343	143,274	**134,786**
Profit (loss) from operation	48,373	40,033	21,537	21,375	**(5,945)**
Finance costs	7,268	5,559	4,625	4,835	**10,084**
Income tax expense	12,281	9,839	4,976	5,138	**450**
Profit (loss) for the year attributable to the owners of the Company	28,631	24,397	11,681	11,247	**(20,626)**
Total comprehensive income (expense) attributable to the owners of the Company	31,094	29,235	8,095	13,617	**(19,850)**
Dividend paid	18,800	24,991	Nil	Nil	**Nil**

Assets and liabilities	As at 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Non-current assets	123,884	110,694	97,602	97,930	**163,375**
Current assets	458,326	428,762	427,936	444,690	**433,788**
Current liabilities	251,416	283,690	261,422	264,732	**174,094**
Net current assets	206,910	145,072	166,514	179,958	**259,694**
Total assets less current liabilities	330,794	255,766	264,116	277,888	**423,069**
Non-current liabilities	80,000	—	—	—	**165,472**
Net assets	250,794	255,766	264,116	277,888	**257,597**
Equity attributable to owners of the Company	250,216	254,460	262,555	276,172	**256,322**

CHAIRMAN'S STATEMENT

Dear Shareholders:

Along with the advent of smart retail era and under the adverse impact of China-US trade war, transformation and upgrading has turned out to be a permanent theme we are facing nowadays, which brings various uncertainties and challenges to all the retailers. China Shun Ke Long Holdings Limited (the "Company", together with its subsidiaries, the "Group") has a total revenue of approximately RMB945.2 million in 2019, which is approximately RMB41.8 million lower than 2018. The net loss attributable to the shareholders is approximately RMB20.6 million in 2019, while the net profit attributable to the shareholders in 2018 was approximately RMB11.4 million. Such performance is attributable to the following reasons:

1. FIERCE MARKET COMPETITION

While the transformation and upgrading of new retail services have not yet achieved a balance between revenue and expenditure, the whole chain supermarket sector is facing fierce market competition. The Group's major competitors keep opening similar stores around our stores, leading to an ever-increasing intensity of competition.

2. HUGE CHALLENGE IN TERMS OF TRANSFORMATION AND UPGRADING

It takes a long time for the transformation and upgrading to show a qualitative rather than quantitative change under the harsh environment which is full of challenges. In response to the market change, the Group opened new stores and upgraded some existing ones in 2019. Since some of the stores engaged in the sales of fresh vegetables/fruit/seafood are still nurturing the market, their potential has yet to be released. Due to the previous significant investment cost, they are still at a loss for the time being.

3. SHRINKING OF OTHER INCOMES

In 2019, all kinds of off-line retail services suffered from the impact brought by their online counterparts, a challenge which led to a decline of revenue in the Group's rent service and supplier service.

Although the Group did encounter some difficulties and hurdles on the way to growth, I must highlight some of the achievements the Group had made in 2019.

1. TRANSFORMING THE BUSINESS MODEL WITH AUDACIOUS REFORM

We designed and put into operation our fresh food community store "Fresh Hubs" before the large scale spreading of this business model. Most of the community stores that were transformed into "Fresh Hubs" would have an income 30%-200% higher after the transformation. The successful making of this profitable model had laid a solid foundation for the transformation of the Group's business model in recent years.

CHAIRMAN'S STATEMENT

2. ALL CHANNEL MARKETING, TRANSFORMATION AND UPGRADING

In terms of new retail upgrading, we had employed an "All Channel Marketing" model, namely, the Group had initiated "Youzan Store" community marketing initiative and involved in cooperation with multiple e-commerce platforms (including Taoxianda). The operating team had set up a special task force to deliver "To Home" service together with several platforms such as "JD Daojia", "Meituan Waimai" and "Eleme", whenever the such opportunities became mature. The annual sales was RMB3 million with daily order averaged over 300 and online subscribers mounted up to 500,000. In addition, the Group will further deepen cooperation with Taoxianda, forging an integrated online and offline model in an effort to expand the coverage in greater Fuoshan region, delivering more and better services and experiences to our customers.

3. REDUCE COST BY DIGITAL UPGRADE

With great efforts devoted into the development of information technology, and the setting up of mobile terminal supervising system, smart classification management system as well as automatic goods supply system, we have greatly improved the operation efficiency and reduced the chances of making errors.

4. MAINTAIN TRADITIONAL DOMINANCE AND INCREASE REVENUE

Amid the transformation of traditional retail services, we had been concentrating on bidding and visited many enterprises and government bodies to acquire more sources of income. In 2019, RMB40 million were added to the existing whole sale revenue, keeping our overall sales relatively stable.

5. TAPPED INTO WHOLESALE AGENT SERVICES

In 2019, the Group was entitled to be the first-tier agent of Yili milk. At the same time, it also increased its supply to large online platforms, an effort which has a positive outlook.

6. RECRUIT MORE FRANCHISERS AND CONSOLIDATE ITS REGIONAL DOMINANCE

The number of franchisees in 2019 was 670, up by nearly 40% from 482 in 2018. Since the majority of them are located in Foshan and Zhuhai regions, the Group consolidated its popularity in Zhuhai region.

In summary, the Group is one of the top retailers in Guangdong Province. Although the performance of 2019 is somewhat lower than that of 2018, the Group will still take retail and wholesale as its core business, adhere to the market-oriented development, regard fresh vegetables/fruit/seafood sales as a point for breakthrough, and integrate online and offline technology with retail services, so as to keep up with the pace of digitalization, and actively expand the market in Guangdong-Hong Kong-Macao Greater Bay Area. By way of integrating of resources, such as suppliers and service providers, on the industrial chain and through service innovation, the strength of the Company has been improved, therefore, stable and healthy development been achieved with customer satisfaction enhanced and brand value maintained. Facing the global outbreak of novel coronavirus epidemic in early 2020, the Group has effectively strengthened its epidemic prevention and supervision measures, and also taken the responsibility assigned by the government to stabilize prices and ensure supply, an endeavor which has been recognized by more and more consumers in the society. The Group will pay close attention to the development of the epidemic, hoping it will come to an end as soon as possible.

CHAIRMAN'S STATEMENT

I would like to express my thanks to our shareholders and suppliers for their continuous support and to the hard work of our employees, hoping that the Group's performance will improve in the coming year, and our company will embark on a new road to bring better returns to the shareholders!

Sun Kin Ho Steven
Chairman

30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an investment holding company and the Group is a supermarket chain store operator with geographical focus in Guangdong province of the PRC. During the year ended 31 December 2019 ("FY2019"), the Group maintained both retail and wholesale distribution channels. The Group's focus on the suburban and rural areas of the PRC made it different from other major players in the market.

Shun Ke Long Strategic Development Map

Retail Outlets

During the FY2019, the Group opened 7 retail outlets and closed 7 retail outlets. As at 31 December 2019, the Group had 68 retail outlets located in Guangdong province of the PRC and 2 retail outlets located in the Macau Special Administrative Region ("Macau") of the PRC, respectively.

The following table sets forth the movements in the number of retail outlets of the Group during FY2019 and the year ended 31 December 2018 ("FY2018"):

	For the year ended 31 December	
	2019	2018
At the beginning of the year	**70**	64
Additions	**7**	8
Reductions	**(7)**	(2)
At the end of the year	**70**	70

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of the number of retail outlets of the Group by geographical location as at 31 December 2019:

Location	Number of retail outlets
Foshan	52
Zhaoqing	7
Zhuhai	5
Guangzhou	4
The PRC	68
Macau	2
Total	70

General Wholesale

During the FY2019, the Group managed to keep all sole and exclusive distribution rights it gained before. The Group maintained sole and exclusive distribution rights for 25 brands covering Foshan, Jiangmen and Zhaoqing. The exact coverage of the Group's sole and exclusive distribution rights varied among those 25 brands. Instead of developing the size of general wholesale customer base, the Group put more emphases on gaining more sub-distributors rather than retailers as the Group's customers.

Franchise Operation

The Group has a franchise scheme opened for application by interested parties to franchise retail outlets. The proceeds from selling goods to franchisees of the Group form part of its wholesale distribution revenue.

The following table sets forth the movements in number of franchise outlets of the Group during the FY2019 and FY2018:

	For the year ended 31 December	
	2019	2018
At the beginning of the year	**482**	437
Additions	**188**	71
Reductions	**–**	(26)
At the end of the year	**670**	482

MANAGEMENT DISCUSSION AND ANALYSIS

RECENT DEVELOPMENT AND OUTLOOK

2020 is truly unprecedented as the 2019 Novel Coronavirus ("COVID-19") is negatively impacting the Chinese economy, causing uncertainties and challenges of all kinds in the retail industry. In the face of the COVID-19, the Group strengthened its infection prevention and supervision measures and complied with the local government's direction on stabilising prices and ensuring supply, which has been welcomed by society at large. At the height of the COVID-19, 66 stores continued in operation, and online business surged by approximately 300%. Based on the currently available information, the directors of the Company consider that the COVID-19 outbreak has not been had any material impact on the financial position of the Group. However, given the inherent unpredictable nature and development of the COVID-19, the Group's business might be affected and the directors of the Company will closely monitor the overall situation and development of events in the regard.

China's retail industry is experiencing a digital transformation, and omnichannel sales are becoming standard in the industry. During these changes, the Group will adjust and transform all aspects of its current business, focusing on the overall layout of five strategic segments: fresh food management, community marketing, category management, incremental business, and incentives for major changes. These changes will help to create strength for the Group in merchandise, service, home delivery, digitalization, and profitability.

1. With regard to building strength in merchandises, the Group will establish and improve direct purchasing processes and standardise intermediate links in operations while reducing costs by combining long-distance and short-distance procurement. Better principles for merchandise selection will also be applied, and these will be regularly analysed and refined. Moreover, creating growth points for core categories, especially fresh food, will produce traffic, sales, and profit.

2. For service, the Group will focus on reinventing its store image. It will also improve service levels by instituting complete PDCA cycle management from training and implementation, to evaluation and adjustment, with clear rewards and penalties.

3. For home delivery, the Group will use cooperation between platforms, focus on community marketing, and produce an online-offline synergy with "Youzan Mall." The Group will simultaneously strengthen cooperation with e-commerce platforms such as "Taoxianda", "Eleme" and "JD Daojia" to promote the development of online O2O and B2B platforms, improve distribution capabilities, set up frontline warehouses and improve operations of logistics centers to achieve integration of online and offline businesses.

4. In terms of digitalisation, the Group paved the way for future transformation and upgrades to its business model by introducing and improving its price comparison system, automatic replenishment system, visual display management system, and mobile terminal management system (E-pass management).

5. In terms of building profitability, the Group will promote stores called "Fresh Hubs" that mainly sell fresh food. Establishing this profit model will serve as a foundation for Simple Kind Life to transform important business formats. In addition, the Group will also strengthen the development of its own brand, focusing on daily necessities, cotton fabrics, and paper products.

With the above measures, the Group believes that there are hidden opportunities for development when stabler times come. Meanwhile, there are uncertainties caused by the global environment. Additionally, the Group will continue to pay attention to different investment opportunities, identify appropriate businesses and projects for shareholders, and increase shareholder returns.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Fierce competition in Expanding Retail Outlets Network

Under fierce competition in retailing industry, we have to face many competitors from domestic or overseas. Our future growth and profitability depend in part on our ability to expand our business presence and network in the Greater Bay Area. Our ability to implement our expansion plan would be subject to the risks and uncertainties such as our ability to identify suitable sites for new retail outlets, availability of resources and fund for expansion plan, our ability to attract management talents, and government approvals, etc.

Change in Consumer Preferences

Consumer preferences in the PRC are changing at a rapid pace and are affected by many factors such as economic conditions, disposable income, government policies, family structure, lifestyle, technology, and many other factors. The success of our business depends on our ability to provide products that satisfy customer demands. If we fail to accurately forecast and adjust our product mix in time to meet the consumer demands and preferences, our results of operations may be adversely affected.

Thin Profit Margin

As the Group is principally engaged in the supermarket business, we have had thin net profit margins. The Group is facing keen competition from other players of the supermarket industry and online retailers, and the increase in the operating costs. As a result, the profit margin has been squeezed. If there is any occurrence of unfavourable event such as the outbreak of infectious disease, concern over safety of product, price advantage of our competitors etc., our volume of products sold, selling prices or costs of sales, may be adversely affected.

Competition from online retailing platform

Online retailing platform has been rising abruptly these years. Based on its inherent attributions such as efficiency, it has been threatening our retail outlets or slowing down our pace of expanding our retail outlets network before we establish our own robust online retailing channels.

FINANCIAL REVIEW

Revenue

For the FY2019, despite weak consumer sentiment due to economic uncertainties, the revenue of the Group was approximately RMB945.2 million, representing a decrease of approximately RMB41.8 million or 4.2% when compared with revenue for FY2018. The decrease in the revenue was mainly driven by the declined sales in retail outlet operation.

MANAGEMENT DISCUSSION AND ANALYSIS

For the FY2019, the Group's revenue from retail outlet operation was approximately RMB664.4 million, representing a decrease of approximately RMB61.5 million or 8.5% comparing with FY2018. The decrease was mainly driven by the decrease in sales of white sugar.

For the FY2019, the Group's revenue from wholesale distribution was approximately RMB280.8 million, representing an increase of approximately RMB19.7 million or 7.5% comparing with FY2018. The increase was mainly due to the fact that the sales of durian increased 90% more than last year by corporate customers.

Gross Profit Margin

For FY2019 and FY2018, the Group's gross profit margins were 14.3% and 14.5%, respectively. The slightly decline was mainly due to the increase in the sales discount offered during promotional activities.

The following table sets forth the breakdowns of the revenue, cost of inventories sold and gross profit in respect of the two business segments of the Group for the FY2019 and FY2018:

	For the year ended 31 December	
	2019	2018
	RMB million	RMB million
Revenue		
Retail outlet operation	**664.4**	725.9
Wholesale distribution	**280.8**	261.1
Total	**945.2**	987.0
Cost		
Retail outlet operation	**542.6**	590.0
Wholesale distribution	**267.8**	253.7
Total	**810.4**	843.7
Gross profit		
Retail outlet operation	**121.8**	135.9
Wholesale distribution	**13.0**	7.4
Total	**134.8**	143.3
Gross profit margin		
Retail outlet operation	**18.3%**	18.7%
Wholesale distribution	**4.6%**	2.8%
Overall	**14.3%**	14.5%

MANAGEMENT DISCUSSION AND ANALYSIS

Other Operating Income

For the FY2019, the Group's other operating income was approximately RMB37.7 million, representing a decrease of approximately RMB17.3 million comparing with FY2018. The decrease was mainly due to the drop in promotion income from suppliers.

Selling and Distribution Costs

For the FY2019, the Group's selling and distribution costs were approximately RMB144.8 million, representing an increase of approximately RMB2.6 million or 1.8% comparing with FY2018. The increase was mainly due to increase in sales promotion expenses and operating costs of retail outlets.

Administrative Expenses

For the FY2019, the Group's administrative expenses were approximately RMB33.7 million, representing a decrease of approximately RMB1.1 million or 3.2% comparing with FY2018, mainly due to decrease in other miscellaneous expenses.

Finance Costs

For the FY2019, the Group's finance costs were approximately RMB10.1 million, representing an increase of approximately RMB5.3 million or 110.4% comparing with FY2018. The increase was mainly due to the interest expense of lease liabilities upon adoption of IFRS 16.

Impairment losses recognised in goodwill, property, plant and equipment and right-of-use assets

In 2019, the management has performed an impairment assessment of goodwill and non-financial assets of the Group. Accordingly, the Group's goodwill, property, plant and equipment and right-of-use assets had been impaired by RMB3 million, RMB0.6 million and RMB0.5 million respectively. The recoverable amount of the cash generating unit is determined based on a discounted pre-tax cash flow projections, prepared in accordance with the financial budgets approved by management covering a five-year period. The major reason for such impairment was due to the Group's retail outlet operation in Macau was affected by sharp increase in rental expenses, which led to an pre-tax operating loss greatly.

Income Tax Expense

For the FY2019, the Group's income tax expense was approximately RMB0.5 million, representing a decrease of approximately RMB4.6 million or 90.2% comparing with FY2018, reflecting the drop of the net profit before income tax expense for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Net (Loss) Profit

For the FY2019, the Group's net loss attributable to the shareholders was approximately RMB20.6 million, representing a drop of approximately RMB32.0 million or 280.7% comparing with FY2018, mainly due to decrease in gross profit, other operating income and the impairment losses on goodwill, property plant and equipment and right-of-use assets during the year.

Total Comprehensive (Expense) Income

For the FY2019, the Group's total comprehensive expense attributable to the shareholders was approximately RMB19.9 million, representing an decrease of approximately RMB33.5 million or 246.3% comparing with FY2018. The depreciation of RMB against HK$ led to an exchange gain on translating financial statements from functional currency to presentation currency of approximately RMB0.8 million for the FY2019, which was reflected in other comprehensive income.

Capital Expenditure

The Group's capital expenditure requirements were mainly related to additions of its property, plant and equipment and right-of-use assets for the newly opened and existing retail outlets. For the FY2019, the Group spent approximately RMB8.2 million and RMB10.6 million on addition of its property, plant and equipment and right-of-use assets respectively.

Liquidity and Financial Resources

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB122.6 million (2018: approximately RMB121.7 million), out of which approximately RMB119.9 million was denominated in RMB and approximately RMB2.7 million was denominated in HK$ or MOP.

As at 31 December 2019, the Group had net current assets of approximately RMB259.7 million (2018: approximately RMB180.0 million) and net assets of approximately RMB257.6 million (2018: approximately RMB277.9 million). As at 31 December 2019, the Group did not have unutilised banking facilities (2018: Nil).

On 21 October 2019, the Board announced that the Company, through its subsidiary, Foshan City Shun Ke Long Commerce Limited ("Foshan SKL") began to subscribe for up to RMB60 million of wealth management product from Shunde Rural Commercial Bank with expected annualised return rate of 3.00% to 3.55%. As at 31 December 2019, Foshan SKL held RMB20 million of the wealth management product.

In order to minimise the credit risk, the management of the Group has assigned responsible staff to determinate credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The management considered that risk of default in respect of trade and other receivables is low and thus the identified impairment loss was immaterial.

Significant Investments and Plans for Material Investments or Capital Assets

The Group did not hold any significant investments during the FY2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary during the FY2019.

Indebtedness and Pledge of Assets

As at 31 December 2019, the Group had bank borrowings denominated in RMB of approximately RMB108 million (2018: approximately RMB108 million) secured by:

(i) the pledge of certain buildings of the Group with carrying values of approximately RMB11.7 million as at 31 December 2019 (2018: approximately RMB10.4 million);

(ii) the pledge of certain right-of-use assets of the Group with carrying values of approximately RMB19.6 million as at 31 December 2019;

(iii) the pledge of certain prepaid land lease of the Group with carrying values of approximately RMB23.6 million as at 31 December 2018; and

(iv) the pledge of certain investment properties of the Group with carrying values of approximately RMB9.7 million as at 31 December 2019 (2018: approximately RMB4.0 million).

All the bank borrowings were repayable within two years. The interests of those loans were fixed at 5.46% per annum (2018: at fixed rate of 5.23% per annum).

Key Financial Ratio

The following table sets forth the key financial ratios of the Group for the FY2019 and FY2018:

	As at/for the year ended 31 December	
	2019	2018
Debtor turnover days	**9.3**	11.8
Inventory turnover days	**56.9**	49.5
Creditor turnover days	**51.5**	48.1
Return on equity	**−8.0%**	4.1%
Return on total assets	**−3.4%**	2.1%
Gearing ratio	**41.9%**	38.9%
Net debt to equity ratio	**Net cash**	Net cash
Current ratio	**2.5x**	1.7x
Quick ratio	**1.7x**	1.2x

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Currency Exposure

Majorities of the Group's assets, liabilities and cash flows were denominated in RMB and part of the Group's assets were denominated in HK$. During the FY2019, the drop of RMB against HK$ had negative effect from translation as the reporting currency of the Group was RMB. Apart from that, the management of the Company viewed that the change in exchange rate for RMB against foreign currencies did not have significant impact on the Group's financial position nor performance given that functional currencies of the Group was RMB. During the FY2019, the Group did not engage in any hedging activities and the Group has no intention to carry out any hedging activities in near future. The management of the Group will continue to closely monitor the foreign currency market and consider carrying out hedging activities when necessary.

Contingent Liabilities

As at 31 December 2019, the Group did not provide any guarantee for any third party and did not have any significant contingent liabilities.

Employees

The Group had a total of 1,308 employees as at 31 December 2019, of which 1,263 employees worked in the PRC and 45 worked in Hong Kong and Macau. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and bonuses based upon staff performance and profits of the Group.

During the FY2019, the Group had not experienced any significant problem with its employees or disruption to its operations due to labour disputes nor had it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

This Environmental, Social and Governance Report (the "ESG Report") summarises the environmental, social and governance ("ESG") initiatives, plans and performances of China Shun Ke Long Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "we"), and demonstrates our commitment to sustainable development.

The Company is an investment holding company, and the Group is a supermarket chain store operator with geographical focus in Guangdong province of the People's Republic of China (the "PRC") and the Macau Special Administrative Region ("Macau"). The Group maintains both retail and wholesale distribution channels. As at 31 December 2019, the Group had a total of 70 retail outlets located in Foshan, Zhaoqing, Zhuhai, Guangzhou, and Macau. In regards to general wholesale, the Group maintained sole and exclusive distribution rights for 25 brands in Foshan, Jiangmen and Zhaoqing.

The Group believes sustainability is a key to achieve continuous success, therefore we have integrated this key concept into our business strategy. In order to pursue a successful and sustainable business model, the Group recognises the importance of integrating ESG aspects into our risk management system. We adhere to the ESG management direction in accordance with the concept of sustainable development, and are committed to progress effectively and responsibly against ESG affairs.

The ESG Governance Structure

The Group conducts a top-down management approach regarding its ESG issues. The board of directors (the "Board") oversees the Group's overall ESG direction and sets out ESG strategy for the Group. The Board is also responsible for ensuring the effectiveness of the Group's ESG risk management and internal control mechanism.

In order to carry out a systematic management of the Group's ESG issues, the Group has assigned the management team as the ESG taskforce (the "Taskforce"). The Taskforce is responsible for collecting relevant information on ESG aspects for the preparation of the ESG Report. It reports to the Board on a regular basis, assists in identifying and assessing the Group's ESG risks, and evaluates the effectiveness of the Group's ESG internal control mechanism. The Taskforce also examines and evaluates the Group's ESG performance in different aspects such as environment, labour standards, and product responsibility.

The Board acknowledges its responsibility for ensuring the integrity the ESG Report. The ESG Report addresses all relevant material issues and fairly presents the Group's ESG performance in a transparent manner. The Board confirms that it has reviewed and approved the ESG Report.

REPORTING SCOPE

The ESG Report generally covers the Group's key business and operational activities, including retail outlets and general wholesale distribution in the PRC and Macau, which represent the Group's major source of revenue. The Group will continue to assess the major ESG aspects of different businesses and extend the scope of disclosures when and where applicable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING FRAMEWORK

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in the Appendix 27 of the Rules Governing the Listing Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Information relating to the Group's corporate governance practices has been set out in the Corporate Governance Report on page 40 to page 49 of this annual report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2019 (the "Reporting Period").

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback in regards to our businesses and ESG aspects. With the goal to strengthen the sustainability approach and performance of the Group, we put effort in maintaining a close communication with our key stakeholders, including but not limited to shareholders and investors, customers, employees, suppliers, government and regulatory bodies, the community, non-governmental organisations ("NGOs") and media. We take stakeholders' expectations into consideration in formulating our businesses and ESG strategies by utilising diversified engagement methods and communication channels, which are shown as below.

Stakeholders	Expectations	Communication channels
Shareholders and investors	• Complying with relevant laws and regulations • Disclosing latest information of the corporate in due course • Financial results • Corporate sustainability	• Annual general meeting and other shareholder meetings • Financial reports • Announcements and circulars
Customers	• Product and service responsibility • Customer information and privacy protection • Compliant operation	• Customer service hotline and email • Meetings • Corporate website • Financial reports
Employees	• Health and safety • Equal opportunities • Remuneration and benefits • Career development	• Channels for employees' feedback (forms, suggestion boxes, etc.) • Trainings, seminars, and briefing sessions • Performance appraisals
Suppliers	• Fair competition • Business ethics and reputation • Cooperation with mutual benefits	• Supplier management meetings and events • Supplier on-site-audit and management system

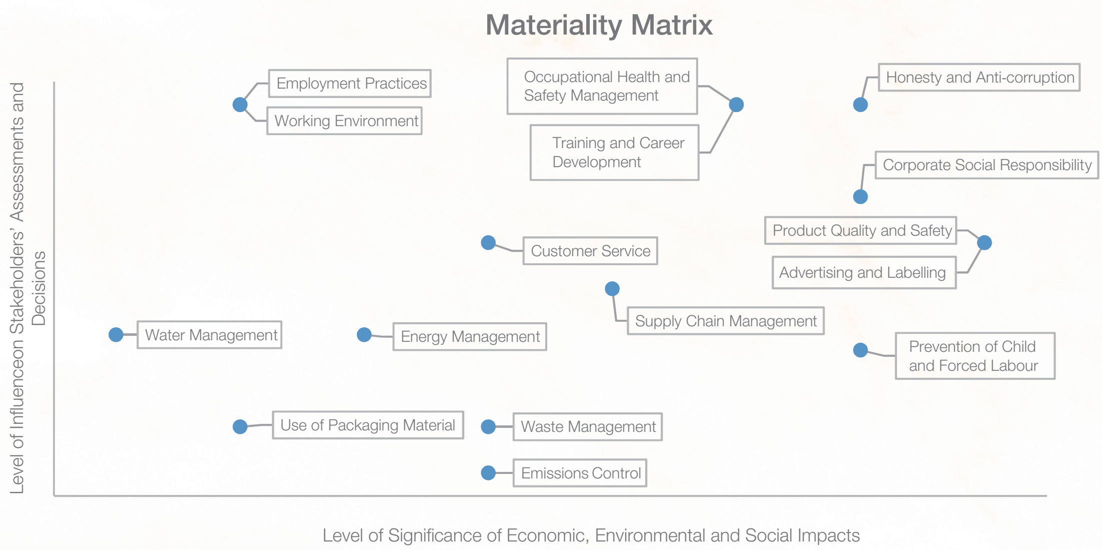
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectations	Communication channels
Government and regulatory bodies	• Business ethics • Complying with relevant laws and regulations	• Regular work meetings • Regular performance reports • Field inspections
Community, NGOs and media	• Giving back to society • Environmental protection • Compliant operations	• Public or community events • Community investment program • ESG Reports

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

MATERIALITY ASSESSMENT

The Group's management and staff in major functions are involved in the preparation of the ESG Report in order to assist the Group in reviewing its operations and identifying the relevant ESG issues, and assess the importance of those relevant matters to our business and stakeholders. We have compiled a survey in accordance with the identified material ESG issues to collect information from relevant departments, business units and stakeholders of the Group. The following matrix is a summary of the Group's material ESG issues.



During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

We welcome stakeholders to provide their opinions and suggestions. You are welcome to provide valuable feedback on the ESG Report or our sustainability performance by email at ir@skl.com.cn.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

A1. Emissions

The Group is committed to ensuring the long-term sustainability in the environment and community where the Group operates. We recognise our responsibilities towards the potential environmental impacts associated with our business operations and integrate environmental consideration into our decision-making processes.

To create an environmentally sustainable business, the Group has implemented an environmental system which was accredited with ISO 14001:2015 Environmental Management System ("EMS"). The Group has also adopted relevant environmental policies which apply the emission mitigation principles as well as the waste management principles of "Reduce, Reuse, Recycle and Replace" ("4R Principles"). The objectives of such policies are to minimise the adverse environmental impacts, and ensure the emissions or wastes being generated are conducted in an environmentally responsible manner.

We have also embraced our responsibility to create an environmentally sustainable business by implementing measures that promote energy conservation, waste reduction and any other green initiatives across the life cycle of our services. We are committed to educating our employees to raise their awareness on environmental protection and compliance with the relevant environmental laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with environmental related laws and regulations in relation to exhaust gas and greenhouse gas ("GHG") emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Environmental Protection Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, the Air Pollution Control Ordinance of Hong Kong, and the Environmental Law of Macau.

Emissions Control

Exhaust Gas Emissions

The Group's major sources of exhaust gas emissions are originated from diesel and petrol consumed by vehicles. In response to the above sources, we have actively taken the following emission reduction measures to minimise the impacts:

- Conduct regular vehicle inspection and maintenance to maintain vehicle efficiency;
- Remind employees to turn off engines for idling vehicles; and
- Actively adopt measures to reduce emissions, and relevant measures will be described in the section headed "GHG Emissions" under this aspect.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group's exhaust gas emissions performance was as follows:

Types of exhaust gas	Unit	Emissions
Nitrogen Oxides (NOx)	kg	522.68
Sulphur Oxides (SOx)	kg	0.75
Particulate Matter (PM)	kg	50.08

GHG Emissions

The major sources of the Group's GHG emissions are generated from diesel and petrol consumption by vehicles (Scope 1) and purchased electricity (Scope 2). We have adopted the following measures to reduce GHG emissions during operation:

- Actively adopt vehicular emission reduction measures which are described in the section headed "Exhaust Gas Emissions" under this aspect; and
- Actively adopt measures for environmental protection, energy conservation, and water-saving which are described in the section headed "Energy Management" under aspect A2.

In addition to the above measures, the Group regularly issues environmental communication newsletters to employees to raise their environmental awareness. Notices and posters with green information are also posted in offices in order to promote the best practices of environmental management. Through the above mentioned GHG emission reduction measures, employees' awareness on GHG emissions has been raised. We aim to make continuous efforts to maintain or reduce the total GHG emissions intensity in the following year. During the Reporting Period, the Group's GHG emissions performance was as follows:

Indicator[1]	Unit	Emissions
Direct GHG emissions (Scope 1)	tCO_2e	135.42
Indirect GHG emissions (Scope 2)	tCO_2e	19,078.84
Total GHG emissions (Scope 1 and 2)	tCO_2e	19,214.26
Total GHG emissions intensity	tCO_2e/employee[2]	14.69
Total GHG emissions intensity	tCO_2e/million revenue[3]	20.33

Note:

1. GHG emission data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5), the latest released emission factors of China's regional power grid basis, and the "Sustainability Report 2018" issued by the Companhia de Electricidade de Macau (CEM).

2. As at 31 December 2019, the Group had a total of 1,308 employees. The data is also used for calculating other intensity data.

3. During the Reporting Period, the Group's total revenue was approximately RMB945.2 million. The data is also used for calculating other intensity data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Sewage Discharge

Since our business activities do not consume significant volume of water during our daily operations, therefore we did not generate material portion of sewage. As the sewage discharged by the Group is discharged into the municipal sewage pipe network to the regional water purification plant, the water consumed by the Group is considered as sewage discharged. The data on water consumption will be described in the section "Water Management" in aspect A2.

Waste Management

Hazardous wastes

Despite the Group did not generate hazardous wastes during the Reporting Period, the Group has established guidelines of governing the management and disposal of hazardous wastes. In case if there are any hazardous wastes produced, the Group is required to engage a qualified chemical waste collector to handle such wastes, which is complied with the relevant environmental regulations and rules.

Non-hazardous wastes

The Group adheres to the principles of waste management, and is committed to handling and disposing all wastes generated by our business activities through abiding by the 4R Principles. The Group has formulated the Waste Disposal Policy which is formally documented in the Food Safety Management System. All of our waste management measures and practices comply with relevant environmental laws and regulations. The non-hazardous wastes generated by the Group's business activities are mainly paper, and we have taken the following measures to reduce non-hazardous wastes during our business operation:

- Set duplex printing as the default mode for most network printers;
- Print or copy only the pages needed;
- Reuse envelops, folders and carton in office;
- Utilise electronic means for office daily communication;
- Promote double-sided printing and photocopying;
- Separate the single-sided paper and double-sided paper neatly for better recycling; and
- Use the back of old single-sided documents for printing or as draft paper.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With the above waste reduction initiatives, employees' awareness on waste reduction has been raised. We are targeting to maintain or reduce the paper consumption intensity in the following year. During the Reporting Period, the Group's non-hazardous wastes discharge performance was as follows:

Non-hazardous waste type	Unit	Discharge
Paper	tonnes	13.10[4]
Paper consumption intensity	tonnes/employee	0.01
Paper consumption intensity	tonnes/million revenue	0.01

Note:

4. Actual paper consumption was approximate to 3,000,000 sheets during the Reporting Period.

A2. Use of Resources

The Group strives to optimise resource usage in business operations, and continues with initiatives to introduce resource efficiency and eco-friendly measures to the Group's operations. The Group has established relevant policies and procedures in governing the efficient use of resources, aiming to achieve higher energy efficiency and reduce unnecessary use of resources. All offices have implemented effective energy conservation measures to reduce emissions and resources consumption.

Energy Management

The Group aims to minimise environmental impacts in our operations by identifying and adopting appropriate measures. The Group has developed energy policies, measures and practices, for which they are formally documented in the Office Order Management Regulations to show our commitment on energy efficiency. All employees are required to adopt such measures and practices, including the purchase of energy-efficient products and services, and assume responsibility for the Group's overall energy efficiency.

The major energy consumption of the Group is the electricity consumed in daily operations and diesel and petrol consumed for vehicles. The Group has introduced various measures and initiatives to achieve the goal of electricity saving and efficient consumption. Such measures and initiatives include but are not limited to:

- Replace traditional light bulbs with electricity-saving light bulbs to ensure energy is being saved;
- Turn off all unnecessary lightings and use natural lightings as far as practicable;
- Clean electronic equipment (i.e. refrigerators and air-conditioners) regularly to maintain high efficiency;
- Turn office lights and other electronic devices off whenever and wherever unnecessary;
- Set the temperature of air-conditioners according to weather situations, and ensure that the temperature should not be set under 26˚C in summer and over 22˚C in winter; and
- Utilise office electronic communication means.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Through the implementation of the above initiatives, employees' awareness on energy efficiency has been raised. We aim to make continuous efforts to maintain or reduce the total energy consumption intensity in the following year. During the Reporting Period, The Group's energy consumption performance was as follows:

Energy type	Unit	Consumption
Electricity	MWh	22,773.59
Diesel	MWh	1.19[5]
Petrol	MWh	492.07[6]
Total energy consumption	MWh	23,266.85
Total energy consumption intensity	MWh/employee	17.79
Total energy consumption intensity	MWh/million revenue	24.62

Note:

5. Actual diesel consumption was approximately 110.95 litres during the Reporting Period.

6. Actual petrol consumption was approximately 50,824.65 litres during the Reporting Period.

Water Management

Water consumption of the Group is mainly for cleaning and sanitation. We have educated and encouraged all employees to develop the habit of water conservation. We have been strengthening our water-saving promotion, posting water saving reminders, and guiding employees to use water reasonably. The following are some measures we have implemented to improve the utilisation efficiency of water resources:

- Fix dripping taps immediately and avoid any leakage of the water supply system;
- Strengthen the inspection and maintenance on water tap, water pipelines and water storage;
- Carry out regular leakage tests on water taps, washers and other defects in the water supply system;
- Use water-saving equipment; and
- Advocate the virtue of preserving water and instill the concept of "Water Preservation" in employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are targeting to maintain or reduce the water consumption intensity in the following year. During the Reporting Period, the Group's water consumption performance was as follows:

Indicator	Unit	Consumption
Water	m^3	83,834.00
Water consumption intensity	m^3/employee	64.09
Water consumption intensity	m^3/million revenue	88.69

Due to the geographical location of the Group's operation and nature of business, there is no issue with sourcing water that is fit for purpose. The Group's consumed water is mainly tap water supplied by the municipal pipe network.

Use of Packaging Material

Due to the Group's business nature, the major packaging material used is plastic shopping bags. To reduce the consumption of plastic shopping bags, we have actively encouraged our customers to bring their own shopping bags. We aim to make continuous effort to maintain or reduce the plastic shopping bags consumption intensity in the following year. During the Reporting Period, the Group's packaging material consumption performance was as follows:

Type of packaging material	Unit	Consumption
Plastic shopping bags	tonnes	4.37
Plastic shopping bags intensity	tonnes/million revenue	0.005

A3. The Environment and Natural Resources

The Group focuses on the impact brought by the Group's businesses on the environment and natural resources, and pursues the best environmental practices. Apart from complying with related environmental regulations and international standards to protecting the natural environment and achieving the aim of environmental sustainability, the Group also integrates the concept of environmental and natural resource protection into its internal management and daily operational activities.

Working Environment

To enhance working efficiency, the Group is committed to providing employees a comfortable and green working environment. The Group maintains office order and environmental sanitation, and keeps the office clean and tidy. In addition, the Group regularly monitors and measures the indoor air quality of the workplace. The Group maintains indoor air quality by installing air purification equipment in the workplace and regularly cleaning air-conditioning systems to filter pollutants and dust. Green plants will also be placed in offices and shops to improve the overall air quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL

B1. Employment

Human resources are the foundation in supporting the development of the Group. The Group treasures employee's talent, and recognises it as the most valuable asset of the Group. We have formulated an employee handbook (the "Employees' Handbook") to fulfil our vision on people-oriented management and realising the full potential of employees. The Employees' Handbook is formally documented, covering recruitment, promotion, dismissal, remuneration and benefits, diversity, equal opportunities and anti-discrimination, etc. We review and update the relevant policies regularly in accordance with the latest laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with employment-related laws and regulations that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC, the Employment Ordinance of Hong Kong, and the Labour Relations Law of Macau.

Employment Practices

Recruitment, Promotion and Dismissal

To ensure employees and applicants are treated and evaluated in a fair way, we apply robust and transparent recruitment processes based on merit selection against the job criteria, and recruit individuals based on their past performance, personal attributes, job experiences and career aspiration, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The Group offers promotion and development opportunities for outperforming employees through an open and fair assessment system so as to explore their potential capability, develop their career and meet the Group's needs of sustainable development. Staff performance review will be carried out regularly to assess employees' work performance based on the principle of meritocracy, talents and competitiveness with openness and fairness.

Besides, the Group does not tolerate the dismissal of employees under any unreasonable basis. Any termination of employment contract would be based on reasonable, lawful grounds and internal policies. The Group strictly prohibits any kind of unfair or unreasonable dismissals.

Remuneration and Benefits

The Group has established a fair and reasonable remuneration system that provides compensation to employees. We offer competitive remuneration and benefits, which are determined by referencing market benchmarks in order to attract high-calibre candidates. The Group conducts regular staff performance review as well as annual salary review to determine salary adjustments. The Group also offers other remuneration packages, including but not limited to holidays, medical insurance, and granted leaves such as maternity leave, marriage leave, compassionate leave, and bereavement leave.

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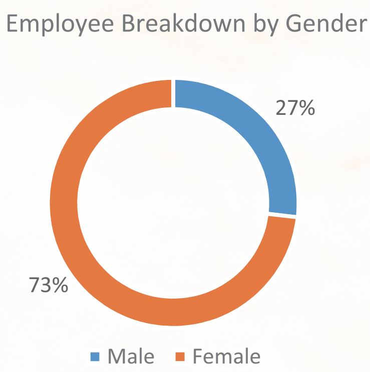
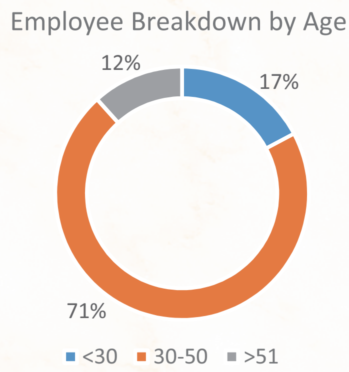
The Group signs and executes labour contracts with all employees in the PRC in accordance with the Labour Contract Law of the PRC. The Group pays "five social insurance and one housing fund" for its employees in the PRC in compliance with the laws and regulations, namely endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund to ensure employees are covered by social insurance.

Diversity, Equal Opportunities and Anti-discrimination

As an equal opportunity employer, we recognise the value of a diverse and skilled workforce and are committed to creating and maintaining an inclusive and collaborative workplace culture in which all can thrive. We are dedicated to providing equal opportunity in all aspects of employment and maintaining an inclusive and collaborative workplace culture that is free from discrimination, physical or verbal harassment against any individual on the basis of race, religion, colour, gender, physical or mental disability, age, place of origin, marital status, and sexual orientation.

As at 31 December 2019, the Group had a total of 1,308 employees. The following charts set out the employees' distribution by gender and age.





B2. Health and Safety

The Group believes that employees are valuable assets of an enterprise and regards human resources as corporate wealth. We are committed to providing and maintaining a safe and healthy environment for our employees. The Group has formulated an occupational health and safety system, and obtained the certificate of OHSAS 18001 Occupational Health and Safety Management System. We have also formulated a range of occupational health and safety measures and practices which are formally documented in the Employees' Handbook. Such measures and policies are to prevent and remediate accidents, detect potential safety hazards, and to ensure workplace safety. We review, and if necessary, revise the relevant measures and practices at least annually to ensure continuous improvements of our health and safety standards.

During the Reporting Period, there were no reported work-related fatalities. The Group was not aware of any material non-compliance with health and safety-related laws and regulations that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Law of the

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PRC on the Prevention and Control of Occupational Diseases, the Production Safety Law of the PRC, the Occupational Safety and Health Ordinance of Hong Kong, and Macau's Decree Law No. 37/89/M (general regulation of working safety and hygiene of office, service and commercial establishment).

Occupational Health and Safety Management

Employees are required to follow the safety and health measures set out in the Employees' Handbook. To pursue an injury-free working environment, the Group conducts regular safety inspections to ensure our operations are conducted in a manner in order to reduce the risks to employees, and follow-up actions will be conducted immediately when deemed necessary.

We emphasise to our employees that strict compliance with safety requirements is vital to ensure that they do not put themselves in danger. When safety issues are spotted, employees are required to report in a timely manner. The Group has also formulated a series of emergency plans in case of any accidents on a regular basis to further reinforce employees' safety awareness.

Fire Safety

The Group has formulated fire safety systems in accordance with the Fire Protection Law of the PRC. The Group will provide trainings to employees in using fire equipment such as fire extinguishers, and conduct fire drills on a regular basis. Fire evacuation plans are also evaluated regularly to ensure fire safety.

B3. Development and Training

The Group recognises the valuable contribution our talents made to the continued success of the Group. We are committed to inspiring our human capital towards delivering excellence. This is achieved through the development of training strategy that focuses on creating values and serving the needs of our customers, our talents and society.

Training and Career Development

To strengthen employees' work-related skills and improve operational efficiency, the Group has developed training policies that offer different trainings and development opportunities to our employees.

The Group provides different training courses and a variety of development programmes for frontline employees, headquarters' employees, middle management and senior management. We require all new employees to attend induction courses to ensure that they are well-equipped with the necessary skills to perform their duties. The Group also provides regular on-the-job trainings to our existing employees. Training contents are regularly updated to ensure training materials are able to enhance the skills, knowledge, and competency of employees to perform duties and tasks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Team building activity organised by the Group


On-the-job training organised for employees

B4. Labour Standards

Prevention of Child and Forced Labour

Child and forced labour are strictly prohibited during the recruitment process as defined by the laws and regulations. The Group strictly complies with local laws to prohibit any child and forced labour employment. The Group's Human Resource Department is responsible to monitor and ensure compliance of latest and relevant laws and regulations that prohibits child labour and forced labour.

To combat against illegal employment on child labour, underage workers and forced labour, valid identity documents such as physical examination certificates, academic credentials, and identity cards are collected by the Group's human resources staff prior to the confirmation of employment. The Human Resources Department also ensures identity documents are carefully checked. If violation is involved, it will be dealt with in the light of circumstances.

During the Reporting Period, the Group was not aware of any material non-compliance with any material non-compliance with child and forced labour-related laws and regulations that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Employment Ordinance of Hong Kong, and the Labour Relations Law of Macau.

B5. Supply Chain Management

As a socially responsible enterprise, it is critical and vital to maintain and manage a sustainable and reliable supply chain. The supply chain management should be consistent with the Group's sustainability strategies in establishing a mutual trust and understanding with its business partners. All suppliers are evaluated carefully and are subjected to regular monitoring and assessment. The Group expects the suppliers to operate in compliance with local environmental laws, ordinances and regulations, so as to reduce ecological impacts.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supply Chain Management

The Group has established a rigorous supplier selection system in selecting suppliers. During the supplier selection process, we do not only review suppliers' basic information, but also consider a number of other factors such as pricing, service quality, business reputation, and the compliance to relevant industrial laws, regulations and standards. In addition, we place product quality as our first priority, and we review the performance of our food product suppliers from time to time and request suppliers to provide regular testing reports of products in order to ensure the supplied food products are meeting our food quality standards.

In view of the growing social concern on environmental issues, the Group has also incorporated environmental and social considerations into the supplier selection process. We aim to maintain a good relationship with suppliers with remarkable records in environmental and social performance; suppliers who fail to demonstrate a good standard or fail to meet the Group's supplier selection criteria maybe excluded from our list of suppliers for future engagements.

In addition to the supplier selection system, the Group has formulated policies and procedures to ensure suppliers could compete in a transparent and fair way. We will not discriminate against any suppliers, and we do not allow any forms of corruption or bribery. Employees and other individuals with interest in the suppliers are not allowed to participate in relevant procurement activities. The Group only selects suppliers who have good track record in the past and have no serious violations of business ethics.

During the Reporting Period, the Group had a total of 661 suppliers, for which 544 are from the PRC and 117 are from Macau.

B6. Product Responsibility

The Group actively safeguards the quality of our products and services, and maintains on-going communication with our customers to ensure understanding and satisfaction of their demands and expectations. We aim to apprehend customers' need and expectations, and strive to continuously improve the quality of our products and services.

During the Reporting Period, the Group was not aware of any material non-compliance with any laws and regulations concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Law of the PRC on the Protection of Consumer Rights and Interests, the Product Quality Law of the PRC, the Patent Law of the PRC, the Advertising Law of the PRC, the Personal Data (Privacy) Ordinance of Hong Kong, the Food Safety Law of Macau, and the Consumer Protection Law of Macau.

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Customer Service

The Group provides quality and warm service experiences to consumers through standardised service quality, humanised service process and standardised service management. Customers can file complaints through mail, phone, and in person. The Group will process and record complaints with dedicated personnel, and keep the process and record confidential to protect the interests of all parties involved to ensure that the complaint process is conducted fairly and recorded properly.

The Group requires each complaint to be properly submitted and processed through relevant function, and prohibits employees to reach private settlement with the complainant to ensure that the Group can accurately receive feedback from customers as an essential basis for enhancing the quality of business operations. The Group considers customer complaint as an important part of continuous improvement of its quality management. We are committed to understanding the facts and root causes of each customer's complaint, identifying responsible parties and areas for improvement, making recommendations and ensuring that necessary improvements have been made in order to enhance the quality of the Group's services, to enable customers' loyalty to the Group's services and to retain a customer base for promoting the future development of the Group.

Product Quality and Safety

We recognise the importance of achieving and maintaining high product quality standard for the sustainable growth of the Group. We have implemented a Food Safety Management System to ensure food quality and safety are maintained. To ensure food quality are up to the Group's standards, raw materials and food ingredients are sourced primarily from the list of suppliers approved by the Group's senior management. Freshness and quality of the raw materials and food ingredients are examined on a regular basis. The Group would cease sourcing from those suppliers who fail to provide quality food ingredients as specified.

Moreover, all employees are prohibited from smoking, chewing gums and eating during work. We require them to sanitise their hands and wear gloves before touching raw food ingredients. Frontline employees are required to provide health certificates, and conduct body check annually to ensure they have good health conditions in handling food products.

The Group has also developed an Expired Food Management Policy that is documented in the Food Safety Management System to specify different instructions and measures to standardise the daily logistics of the warehouse. Such measures include scanning food products daily to ensure food products are not expired. For food products which have already been expired, responsible personnel should dispose such food products in a destructive manner and record the amount of disposed product.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Advertising and Labelling

The Group prohibits the advertisements to disclose descriptions, claims or illustrations that are not true. The Group advertises our shops and business through a variety of platforms, such as mobile apps and billboards. By complying relevant legislations and code of practices, the Group organises promotion campaigns and creates advertising materials to ensure they are reliable, reasonable, and not containing any deceitful details or elements when generating advertisements in order to protect consumers' interests, rights and benefits.

B7. Anti-corruption

The Group values and upholds integrity, honesty and fairness in how we conduct businesses, therefore formulating the Anti-corruption Policy, as stipulated in the Employees' Handbook, to manage fraudulent practices.

During the Reporting Period, the Group was not aware of any material non-compliance with related laws and regulations of bribery, extortion, fraud and money laundering that would have a significant impact on the Group. Such laws and regulations include but are not limited to the Criminal Law of the PRC, the Company Law of the PRC, the Prevention of Bribery Ordinance of Hong Kong, Prevention and the Law Suppression of Bribery in Private Sector, and the Prevention and Suppression of the Crime of Money Laundering of Macau.

Honesty and Anti-corruption

The Group strictly adheres to a high standard of business conduct, and has established relevant policies to define appropriate measures in handling conflict of interests, leakage of confidential information, embezzlement of the Group's asset in one's position, etc. to comply with relevant laws and regulations. The Group has adopted a zero-tolerance approach towards all forms of corruption, including deception, bribery, forgery, extortion, conspiracy, embezzlement, money laundering and collusion. Disciplinary actions will be taken against any kind of misconduct or malpractice.

Employees who are involved in related business activities are required to sign the probity letter upon employment. As spell out in the probity letter, employees should not offer, solicit or accept anything of material value to or from their colleagues, customers, suppliers or other business partners of the Group unless the Group has given consent. All employees are expected to discharge their duties with integrity, to act fairly and professionally, and to abstain from involving in any bribery activities or activities that might exploit their positions against the Group's interests.

The Group also requires its business partners to strictly comply with anti-corruption practices. All business partners are required to sign an acknowledgement letter of the Group's anti-corruption policies. Our statement of anti-corruption policies is placed in all open meeting areas to remind employees and our business partners of such practices.

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B8. Community Investment

The Group is committed to emboldening and supporting the public by the means of social participation and contribution as part of its strategic development, and to nurture and practice corporate culture and corporate citizenship in the daily work life. We aim to promote the stability of society, and support underprivileged on rehabilitation to improve the quality of life. We also focus to inspire our employees towards social welfare concerns. We embrace the human capital into the social management strategies to sustain our corporate social responsibility as a part of the strategic development of the Group.

Corporate Social Responsibility

To have a better understanding of the needs in society and strengthen the connections with local communities, we regularly communicate with local charities. We hope to foster employees' sense of social responsibility, thus encouraging them to participate in charitable activities during their work and spare time to make greater contributions to the community. We believe that by participating in activities that contributes to the community, we can enhance the civic awareness of our employees and establish correct values for them. During the Reporting Period, the Group had donated a total of approximately RMB13,507 to Lecong Charity Federation, Chen Deng Vocational School, and the village committee of Lihai.

The Group had made a donation of
RMB10,888 to Lecong Charity Federation

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CONTENT INDEX OF THE ESG REPORTING GUIDE

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions — Emissions Control, Waste Management
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions — Emissions Control
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Not applicable — Explained
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 ("comply or explain")	Description of reduction initiatives and results achieved.	Emissions — Emissions Control, Waste Management
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Energy Management
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources — Water Management
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Energy Management
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Management
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources — Use of Packaging Material

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Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources — Working Environment
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
KPI B1.1 ("Recommended Disclosure")	Total workforce by gender, employment type, age group and geographical region	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1 ("Recommended Disclosure")	Number and rate of work-related fatalities.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1 ("Recommended Disclosure")	Number of suppliers by geographical region.	Supply Chain Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Sun Kin Ho Steven ("Mr. Sun") (孫乾皓), aged 40, was appointed as the Chairman of the Board and Executive Director on 30 August 2018 and was appointed as Chief Executive Officer on 27 September 2019. He is responsible for overseeing the Company's business strategy and business development direction. He is currently the deputy chief executive officer of HNA Group (International) Company Limited. Mr. Sun joined HNA Group Co., Ltd. (海航集團有限公司) in August 2007. Mr. Sun was an executive director of Tysan Holdings Limited ("Tysan")（previously known as Hong Kong International Construction Investment Management Group Co., Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 687) from 3 August 2018 to 1 January 2020. He was the chairman of the board of Tysan from 3 August 2018 to 26 October 2018, and a co-chairman of Tysan from 26 October 2018 to 11 April 2019. He served as the president of Hong Kong International Financial Services Limited, the chief investment officer of the investment development department of HNA Holding International Investment Group Co., Limited, the operational director of the investment banking management unit of HNA Modern Logistics Group Co., Limited (海航現代物流集團有限公司) and a director of the board of HNA Finance I Co., Ltd. Mr. Sun has more than 10 years of working and management experience in finance and capital operations, corporate strategy development and operational management.

Mr. Han Wei ("Mr. Han") (韓瑋), aged 38, was appointed as a non-executive Director on 10 June 2017 and re-designated as an executive Director and the Chief Financial Officer on 13 September 2017. Mr. Han previously served as the fund planning and procurement manager in the finance planning department of HNA Group Co., Ltd. (海航集團有限公司), the assistant to the general manager in the finance department of Hainan Airlines Co., Ltd. (海南航空股份有限公司), the deputy general manager in the finance planning department of HNA Infrastructure Industry Group Limited (海航基礎產業集團有限公司), the vice president of the project construction department of HNA Industrial Holdings (Group) Co., Ltd. (海航實業控股（集團）有限公司), the executive deputy manager in the finance planning department of HNA Industrial Group Co., Ltd. (海航實業集團有限公司), the chief financial officer of HNA Retailing Co., Ltd. (海航商業控股有限公司), the financial controller of HNA Retailing Co., Ltd. (海航商業控股有限公司), the deputy financial controller and the general manager in the financial planning department of Hainan Gongxiao Daji Holding Ltd. (海南供銷大集控股有限公司), and the financial controller of CCOOP Group Co., Ltd. (供銷大集集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000564). Mr. Han currently serves as a director of HNA Retailing Co., Ltd. (海航商業控股有限公司), the financial controller of Hainan Gongxiao Daji Holding Ltd. (海南供銷大集控股有限公司), an executive director of Green Industrial (HK) Holding Co., Limited (綠色實業（香港）有限公司), an executive director of Feihang Yuanchuang Investment Co., Ltd. (飛航遠創投資有限公司), a director and chief executive officer of Hainan Gongxiao Daji Financial Information Technology Co., Ltd (海南供銷大集金服信息科技有限公司), and a director and president of CCOOP Group Co., Ltd. (供銷大集集團股份有限公司). He holds dual bachelor degrees in Economics and Law from Xi'an Jiaotong University in China and a postgraduate diploma in Finance from Xiamen University in China. He is an intermediate economist.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Wang Fu Lin ("Mr. Wang") (王福林), aged 43, was appointed as a non-executive Director on 10 June 2017. Mr. Wang previously served as the deputy general manager of project development and management department of HNA Group Co., Ltd. (海航集團有限公司), the assistant to president of HNA Real Estate Holdings (Group) Co., Ltd. (海航置業控股（集團）有限公司), the chairman and general manager of Chongqing Dingrui Real Estate Development Co., Ltd. (重慶鼎瑞地產開發有限公司), the general manager in the planning investment department of Hainan Gongxiao Daji Holding Ltd. (海南供銷大集控股有限公司), and the general manager of the investment innovation department of CCOOP Group Co., Ltd. (供銷大集集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000564). Mr. Wang currently serves as the general manager of the board office of CCOOP Group Co., Ltd.. He holds a bachelor's degree in Economics from Xi'an College of Statistics in China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chong Kin Ho ("Mr. Chong") (莊健豪), aged 44, was appointed as an independent non-executive Director on 31 October 2018. He obtained a Bachelor of Arts degree in Accountancy from The Hong Kong Polytechnic University in November 1998 and a Master of Science degree in Professional Accountancy from the University of London in August 2018. Mr. Chong has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants ("HKICPA") since February 2002 and became a fellow member of the HKICPA in May 2015. He has also been a fellow member of The Association of Chartered Certified Accountants and a fellow member of The Taxation Institute of Hong Kong since October 2006 and September 2010, respectively. Mr. Chong has also been admitted as an ordinary member of The Society of Chinese Accountants & Auditors since May 2010, and is currently a certified tax adviser registered with The Taxation Institute of Hong Kong. Mr. Chong has over 20 years of experience in accounting, auditing, taxation, finance and business advisory. He was an independent non-executive director of Tysan Holdings Limited (previously known as Hong Kong International Construction Investment Management Group Co. Limited) (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 687) from January 2019 to May 2019. Since December 2004, Mr. Chong has been the sole proprietor of Flexkin & Co., a certified public accountant practicing firm in Hong Kong. He has also been a director of Startup Business Services Limited since October 2014 and Flexkin Corporate Services Limited since December 2019. Mr. Chong was a director of Hong Kong General Chamber of Young Entrepreneurs Limited from August 2017 to December 2019. From July 2005 to July 2006, Mr. Chong worked as a senior accountant in eSun Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 571). He worked in Lippo China Resources Limited (a company listed on the Main Board of the Stock Exchange, stock code: 156), from September 2004, and his last held position when he left in July 2005 was senior accountant. Between March 2003 and September 2004, he was a finance and administration manager of VITOVA LIMITED, and from September 1998 to March 2003, Mr. Chong worked in Deloitte Touche Tohmatsu, with his last held position as senior consultant.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tung Chia Hung Michael ("Mr. Tung") (董家宏), aged 40, was appointed as an independent non-executive Director on 31 October 2018. He has over 18 years' experiences in the banking and finance field. Mr. Tung has been a partner of Oski Capital Group Limited since May 2017. From July 2010 to May 2017, Mr. Tung worked as client advisor in the wealth management division at UBS AG, focusing on servicing private equity and venture capital funds. Mr. Tung was a global wealth management client advisor of HSBC Private Bank (Suisse) S.A. from September 2005 to March 2007. From April 2007 to June 2010, Mr. Tung worked as an investment advisor at private wealth management department of Morgan Stanley Asia, Ltd. Mr. Tung worked as an associate vice president of Bank of America Securities LLC (BAS) from July 2003 to July 2005 and he worked as an Associate of Wells Fargo Bank, N.A. from September 2001 to June 2003. Mr. Tung obtained a bachelor degree of arts in Psychology with a minor in Chinese from the University of California, Davis, the United States in September 2002. Mr. Tung obtained a master degree of Science in Global Finance from The Hong Kong University of Science and Technology and New York University in June 2019.

Mr. Chen Cheng Lien ("Mr. Chen") (陳政璉), aged 41, was appointed as an independent non-executive Director on 31 October 2018. He has over 10 years' experience in finance and investment field as well as technology industry. Mr. Chen is currently the chief executive officer of Cornucopia Innovation Corporation, a wholly-owned subsidiary of Solomon Technology Corporation ("Solomon", together with its subsidiaries "Solomon Group"), a company listed on Taiwan Stock Exchange (stock code: 2359TW). Mr. Chen joined Solomon Group in September 2005 and he was a member of the board of directors of Solomon from July 2008 to January 2013. Mr. Chen was also a member of the board of directors of Solomon Goldentek Display Corporation from June 2014 to March 2018. Since December 2009, Mr. Chen has been a member of the board of directors of Data International Co. Ltd., a company listed on GreTai Securities Market of the Taiwan Stock Exchange (stock code: 5432TW). Mr. Chen was also a member of board of directors of United Test and Assembly Center Ltd. from June 2007 to October 2007. Mr. Chen was an analyst of JP Morgan Securities (Asia Pacific) Limited from July 2004 to September 2005 and a research analyst of Prudence International Advisory Limited from July 2003 to May 2004. Mr. Chen obtained a bachelor of science degree from the University of Illinois at Urbana Champaign, the United States in 2001, a master degree in financial engineering from the University of California, Berkeley in 2003 and master of business administration degree in 2008 from Cornell University, the United States. Mr. Chen obtained an EMBA degree at China Europe International School in Shanghai, the People's Republic of China in August 2019.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Wang Xiaoqiong (王霄瓊), aged 34, joined the Group in November 2018. She currently is a deputy president of the Company and responsible for finance and daily management of the Group. Ms. Wang Xiaoqiong is good at overseas financial management, investment, financing and merger and acquisition, listed company governance and the closed-loop management of investment projects covering financing, investment, management and withdrawal, and has over 10 years' experience in finance and accounting. Ms. Wang Xiaoqiong worked at HNA Group headquarter and international headquarter, and Western Airlines Co., Ltd. She also held managerial role in various public companies, including AID Life Science（HK.08088） and Tysan Holdings Limited（HK.00687）. Ms. Wang Xiaoqiong is a member of the Institute of Public Accountants, Australia, an Intermediate Economist in the PRC and a Senior International Finance Manager certified by the International Finance Management Association. Ms. Wang Xiaoqiong obtained a MBA degree from Southwestern University of Finance and Economics.

Ms. Wang Yanfen (王艷芬), aged 44, joined the Group in 1996. She started as a first-line manager, and currently is the general manager of 佛山市順客隆商業有限公司, a wholly-owned subsidiary of the Company. She is responsible for the Group's business operations. Ms. Wang Yanfen has been committed to promoting corporate development, deepening reform, innovation and transformation and standardizing management, as a way to enhance efficiency and improve performance. Ms. Wang Yanfen successively served as deputy to the 14th National People's Congress of Foshan, Guangdong province, a guest supervisor of Lecong People's Government, and women's representative of Lecong. She also held management positions in various social groups and industry associations. Ms. Wang Yanfen was awarded as an advanced individual in the "Women Heroes" selection held in Shunde district, "Industry Star" in Lecong, "Advanced Workers" and "Outstanding Member of Communist Party". She strives to play her part in building a better society. Ms. Wang Yanfen graduated from Ji'nan University majoring in business administration, and obtained a MBA degree from Victoria University, Switzerland.

COMPANY SECRETARY

Mr. Qiu Minghao ("Mr. Qiu") (邱明昊), aged 39, was appointed as Company Secretary of the Company on 31 October 2019. He is a Chartered Secretary and an Associate of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. He has more than nine years of experience in handling company secretarial and compliance related matters to Hong Kong listed companies. Mr. Qiu received a Bachelor's degree of Administrative Studies with Honours from York University in Canada in 2005.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board (the "Board") of directors (the "Directors") of the Company is committed to achieving high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework to safeguard the interests of shareholders of the Company (the "Shareholders"), to enhance corporate value and accountability, and to formulate its business strategies and policies for the development of the Group.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board is of the view that for the year ended 31 December 2019, the Company has complied with all the code provisions as set out in the CG Code, except for the following deviation:

Code Provision A.2.1

Code provision A.2.1 of the CG Code provides that the responsibilities between the Chairman and the Chief executive officer of an issuer should be segregated and should not be performed by the same individual.

However, Mr. Sun Kin Ho Steven, who was also the Chairman of the Board, was appointed as Chief Executive Officer by the Board on 27 September 2019, on which Mr. Mung Hon Ting Jackie was removed as Chief Executive Officer by the Board. The Board believes that vesting the roles of both the chairman of the Board and the Chief Executive Officer in the same person can facilitate the execution of the Company's business strategies and boost effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. In addition, under the supervision of the Board which is comprised of two executive Directors, one non-executive Director and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its Shareholders. Furthermore, the Board is actively searching for a suitable candidate to fill the position of Chief Executive Officer.

The Company will continue to review and enhance its corporate governance practices to ensure that it will continue to meet the requirements of the CG Code and the rising expectations of the Shareholders and investors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with the Model Code for the year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Directors during the year ended 31 December 2019 and up to the date of this annual report were as follows:

Executive Directors

Mr. Sun Kin Ho Steven *(Chairman), (Chief Executive Officer, appointed on 27 September 2019)*
Mr. Mung Hon Ting Jackie *(Chief Executive Officer) (resigned on 27 September 2019)*
Mr. Han Wei *(Chief Financial Officer)*

Non-Executive Directors

Mr. Wang Fu Lin
Mr. Wu Limin *(resigned on 31 January 2019)*

Independent Non-Executive Directors

Mr. Chong Kin Ho
Mr. Tung Chia Hung Michael
Mr. Chen Cheng Lien

An updated list of the Directors identifying their roles and functions is maintained on the websites of the Company and the Hong Kong Exchanges and Clearing Limited ("HKEx"). Independent Non-executive Directors are identified as such in all corporate communications containing the name of the Directors.

None of the members of the Board has any relationship with one another (including financial, business, family or other material/relevant relationship(s)).

BOARD DIVERSITY

The Company adopted a board diversity policy (the "Board Diversity Policy"). The Company recognised the benefits of having a diverse Board to enhance the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, all of which the Company considers to be important to enhance the quality of its performance. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee of the Company will monitor the implementation of the Board Diversity Policy and recommend any proposed changes to the Board for approval. The nomination committee will from time to time review the Board Diversity Policy as appropriate to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Board meets regularly, and at least four times a year. For regular Board meetings, the Directors receive written notice of the meeting generally about 14 days in advance. For other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances. All the Directors have full and timely access to all the information of the Group as well as the services and advice from the company secretary and senior management of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas. Pursuant to the Articles of Association of the Company, the Directors may participate in Board meetings in person, by phone or by other communication means.

Should a potential conflict of interest involving a substantial shareholder or a Director arise, the matter will be dealt with by a physical meeting rather than by written resolution. Pursuant to the Articles of Association of the Company, a Director who is considered to be materially interested in the matter shall abstain from voting on the resolution approving such matter.

During the year ended 31 December 2019, the Board held seventeen meetings. The attendance record of individual Director is set out below. Figure in Brackets indicates the total number of meeting held in the period in which the individual was a Director.

Directors	**Attendance**
Executive Directors	
Mr. Sun Kin Ho Steven *(Chairman), (Chief Executive Officer, appointed on 27 September 2019)*	16/(17)
Mr. Han Wei *(Chief Financial Officer)*	11/(17)
Non-executive Directors	
Mr. Wang Fu Lin	16/(17)
Independent Non-executive Directors	
Mr. Chong Kin Ho	17/(17)
Mr. Tung Chia Hung Michael	16/(17)
Mr. Chen Cheng Lien	16/(17)
Former Directors	
Mr. Mung Hon Ting Jackie *(Chief Executive Officer) (resigned on 27 September 2019)*	11/(13)
Mr. Wu Limin *(resigned on 31 January 2019)*	0/(1)

Draft and final versions of minutes of each Board meeting are sent to all Directors for their comments and records respectively within a reasonable time. The Company also keeps detailed minutes of each Board meeting, which are available for inspection by all Directors.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance in respect of possible legal actions taken against Directors and officers of the Group arising out the corporate activities.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

To comply with the requirements under the CG Code, the Board is also responsible for performing the corporate governance duties. During the year ended 31 December 2019, the Board has performed the corporate governance duties set out in D.3.1 of the CG Code, including but not limited to reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors shall keep abreast of responsibilities as Director of the Company and of the conduct, business activities and development of the Group.

Every newly appointed director will receive formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the CG Code with regards to continuous professional development, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors and senior management are encouraged to attend relevant training courses at the Company's expenses.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the key methods of attaining continuous professional development by each of the Directors are summarized as follows:

Directors	**Attending conferences/courses/ seminars/**	**Reading articles/ books/journals**
Mr. Sun Kin Ho Steven *(Chairman, Chief Executive Officer)*	√	√
Mr. Han Wei *(Chief Financial Officer)*	√	√
Mr. Wang Fu Lin	√	√
Mr. Chong Kin Ho	√	√
Mr. Tung Chia Hung Michael	√	√
Mr. Chen Cheng Lien	√	√

NON-EXECUTIVE DIRECTORS

A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 of the CG code states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

As at the date of this annual report, each of the Directors entered into a service agreement or letter of appointment for a term of three years commencing from the date of appointment of each of Directors. All Directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the first general meeting or next annual general meetings after appointment pursuant to the Articles of Association of the Company.

The Company has received from all independent non-executive Directors' confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independence. None of them has served the Company for more than nine years.

BOARD COMMITTEES

The Board has established three committees, namely, the audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to the Shareholders upon request. Each of the committees is provided with sufficient resources to perform its duties.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. As at the date of this annual report, the Audit Committee comprises three members, namely Mr. Chong Kin Ho (Chairman), Mr. Tung Chia Hung Michael and Mr. Chen Cheng Lien. They are all independent non-executive Director.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management systems of the Group, to oversee the audit process and the relationship with external auditor, to review arrangements enabling employees of the Group to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company and to perform other duties and responsibilities as assigned by our Board.

During the year ended 31 December 2019, the Audit Committee reviewed the interim and annual results of the Group and discussed and approved the relevant financial reports. It also reviewed and discussed the risk management and internal control systems of the Group. It also considered the appointment of the external auditors and discussed with external auditors the nature and scope of audit before any audit commences.

The Audit Committee held four meetings during the year ended 31 December 2019. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Audit Committee.

Members	**Attendance**
Mr. Chong Kin Ho *(Chairman)*	4/(4)
Mr. Tung Chia Hung Michael	4/(4)
Mr. Chen Cheng Lien *(appointed on 31 January 2019)*	3/(3)
Former committee members	
Mr. Wu Limin *(resigned on 31 January 2019)*	0/(1)

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with paragraph B.1 of the CG Code. As at the date of this annual report, the Remuneration Committee comprises three members, namely Mr. Tung Chia Hung Michael (Chairman), Mr. Chen Cheng Lien and Mr. Sun Kin Ho Steven. Mr. Sun Kin Ho Steven is an executive Director, while the remaining two members are independent non-executive Directors.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, to make recommendations to the Board on the remuneration packages of executive Directors and senior management and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Remuneration Committee has reviewed the remuneration policy and remuneration of executive Directors and assessed performance of executive Directors.

During the year ended 31 December 2019, two Remuneration Committee meetings were held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Remuneration Committee.

Members	**Attendance**
Mr. Tung Chia Hung Michael *(Chairman)*	2/(2)
Mr. Chen Cheng Lien	2/(2)
Mr. Sun Kin Ho Steven *(appointed on 27 September 2019)*	0/(1)
Former committee members	
Mr. Mung Hon Ting Jackie *(resigned on 27 September 2019)*	1/(1)

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with paragraphs A.5 of the CG Code. As at the date of this annual report, the Nomination Committee has three members, namely Mr. Sun Kin Ho Steven (Chairman), Mr. Tung Chia Hung Michael and Mr. Chen Cheng Lien. Mr. Sun Kin Ho Steven is the Chairman of the Board and an executive Director while the remaining members are independent non-executive Directors.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships and to assess the independence of independent non-executive Directors.

During the year ended 31 December 2019, the Nomination Committee reviewed the structure, composition and diversity of the Board of the company; assessed the independence of the independent non-executive Directors and the Directors to be re-elected at the 2019 annual general meeting before putting forth for discussion and approval by the Board; and also made recommendation to the Board on the appointment of Chief Executive Officer.

During the year ended 31 December 2019, two Nomination Committee meeting were held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Nomination Committee.

Members	**Attendance**
Mr. Sun Kin Ho Steven *(Chairman)*	1/(2)
Mr. Tung Chia Hung Michael	2/(2)
Mr. Chen Cheng Lien	2/(2)

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial period and confirmed that the consolidated financial statements contained herein give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of the consolidated financial performance and the consolidated cash flow of the Group for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Statement of the external auditor's responsibilities in respect of the consolidated financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITORS' REMUNERATION

The Company appointed SHINEWING (HK) CPA Limited as the external auditors for the year ended 31 December 2019. During the year ended 31 December 2019, the total fees paid/payable, excluding disbursements, in respect of audit services provided by SHINEWING (HK) CPA Limited (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out below:

	RMB'000
Annual audit fee charged by SHINEWING (HK) CPA Limited	1,250

INTERNAL CONTROLS AND RISK MANAGEMENT

The Group strives to maintain the integrity of its business, results of operations and reputation by strictly adhering to an internal control system in respect of its business. The Group has therefore implemented internal control procedures and manuals covering a number of key control areas such as tendering, purchase and procurement management, financial management and safety and environment compliance management with a view to ensuring compliance by the Group with applicable laws, rules and regulations.

The Board, through the Audit Committee, is responsible for overseeing and monitoring the key measures adopted by the Group under the risk management and internal control systems relating to the business operations of the Company and assess the effectiveness regularly. Review on the key measures adopted by the Group under the risk management and internal control system relating to the Group's business operations has been conducted for the FY2019.

For the FY2019, the Company did not have an internal audit function. The Company engaged an independent internal control consultant to perform a review on the design, implementation and operating effectiveness of the Company's internal control system. The results of the review were reported to the Audit Committee and measures was seriously considered by the Company after taking into account of the findings and recommendations of the internal control consultant.

CORPORATE GOVERNANCE REPORT

Based on the above, for the FY2019, the Board considered the Group's risk management and internal control system as adequate and effective.

COMPANY SECRETARY

Following the resignation of Mr. Tam Sze Kin as the Company Secretary of the Company effective from 31 October 2019, The Board appointed Mr. Qiu Minghao as the Company Secretary on the same date. During the year ended 31 December 2019, Mr. Qiu Minghao had taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Pursuant to Article 58 of the Articles of Association of the Company, any one or more Shareholder(s) 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 shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition; such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The written requisition shall be deposited at the place of business of the Company in Hong Kong at Suites 06–12, 33/F., Shui On Centre, Nos. 6–8 Harbour Road, Wan Chai, Hong Kong or, in the event the Company ceases to have such place of business, the registered office of the Company (Vistra (Cayman) Limited, P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands). The requisition must state clearly the name of the requisitionist(s), his/her/their shareholding in the Company, the reason(s) to convene the EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM and signed by the requisitionist(s).

Shareholders may at any time send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Suites 06–12, 33/F., Shui On Centre, Nos. 6–8 Harbour Road, Wan Chai, Hong Kong by post or by email at ir@skl.com.cn for the attention of the Company Secretary of the Company. The Company Secretary will be responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and enquiries, to the CEO of the Company. Shareholders may also raise their enquiries in general meetings.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. Information would be communicated to the Shareholders mainly through the Company's corporate communications (such as interim and annual reports, announcements and circulars), annual general meetings and other general meetings, as well as disclosure on the website of the Company. Interim reports, annual reports and circulars are sent to the Shareholders in a timely manner and are also available on the website of the Company.

CORPORATE GOVERNANCE REPORT

The Company endeavours to maintain an on-going dialogue with the Shareholders and in particular, through annual general meeting (the "AGM") and other general meeting. At the AGM, the Directors (or their delegates as appropriate) are available to meet the Shareholders and answer their enquiries. The chairman of the AGM proposes separate resolutions for each issue to be considered. AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The chairman of the AGM exercises his power under the Bye-laws to put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website and HKEx on the day of the AGM.

During the year ended 31 December 2019, the Company held one general meeting. The attendance record of individual Directors is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a Director of the Company.

Directors	**Attendance**
Executive Directors	
Mr. Sun Kin Ho Steven *(Chairman), (Chief Executive Officer, appointed on 27 September 2019)*	1/(1)
Mr. Han Wei *(Chief Financial Officer)*	0/(1)
Non-executive Directors	
Mr. Wang Fu Lin	0/(1)
Independent Non-executive Directors	
Mr. Chong Kin Ho	1/(1)
Mr. Tung Chia Hung Michael	1/(1)
Mr. Chen Cheng Lien	0/(1)
Former Directors	
Mr. Mung Hon Ting Jackie *(Chief Executive Officer) (resigned on 27 September 2019)*	1/(1)
Mr. Wu Limin *(resigned on 31 January 2019)*	0/(0)

CONSTITUTIONAL DOCUMENT

During the year ended 31 December 2019, the Company has not made any changes to the Articles of Association of the Company. An up-to-date version of the Memorandum and Articles of Association is available on the Company's website and the Stock Exchange's website.

DIRECTORS' REPORT

The Board of the Company is pleased to present this Director's report along with the audited consolidated financial statements of the Company for the year ended 31 December 2019 (the "Financial Statements").

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this annual report were as follows:

Executive Directors

Mr. Sun Kin Ho Steven *(Chairman), (appointed as Chief Executive Officer on 27 September 2019)*
Mr. Mung Hon Ting Jackie *(Chief Executive Officer) (resigned on 27 September 2019)*
Mr. Han Wei *(Chief Financial Officer)*

Non-Executive Directors

Mr. Wang Fu Lin
Mr. Wu Limin *(resigned on 31 January 2019)*

Independent Non-Executive Directors

Mr. Chong Kin Ho
Mr. Tung Chia Hung Michael
Mr. Chen Cheng Lien

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is a supermarket chain store operator with geographical focus in Guangdong province of the People's Republic of China (the "PRC") and maintains both retail and wholesale distribution channels.

BUSINESS REVIEW

A fair business review of the Group as required under Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion and analysis of the Group's performance during the year ended 31 December 2019, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred after 31 December 2019 (if any) as well as an indication of likely future development in the business of the Group are provided in the sections "Chairman's Statement" and "Management Discussion and Analysis" on pages 4 to 15 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are provided in the "Environmental, Social and Governance Report" on pages 16 to 35 of this annual report. All such discussions form part of this report.

DIRECTORS' REPORT

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 73 of this annual report.

The Company has adopted a dividend policy (the "Dividend Policy"), pursuant to which, the Board considers the following factors to decide whether to announcement a dividend:

- The general financial conditions of the Group;
- Retained earnings and distributable reserves of the Company and each of the members of the Group;
- The actual and future operations and liquidity positions of the Group;
- The future cash requirements and availability of the Group, including its expected working capital requirements, capital expenditure requirements and future expansion plans;
- Any restrictions on payments of dividends that may be imposed by the Group's lenders;
- The general market conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and
- Any other factor that the Board deems appropriate.

The Board has resolved not to declare any final dividend for the year ended 31 December 2019.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the most recent five years is set out in the section headed "Financial Summary" on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the year ended 31 December 2019 are set out in notes 13 and 16 to the Financial Statements.

SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 31 December 2019 are set out in note 28 to the Financial Statements.

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 76 of this annual report.

DIRECTORS' REPORT

LISTING

The shares of the Company (the "Shares") were successfully listed (the "Listing") on The Stock Exchange on 10 September 2015 (the "Listing Date") through an offering of Shares (the "Global Offering"). For the details of the Global Offering, please refer to the prospectus issued by the Company (the "Prospectus") on 28 August 2015. In the Global Offering, 75,600,000 Shares were issued at HK$2.88 each and the total gross proceeds received amounted to approximately HK$217.7 million (equivalent to approximately RMB178.9 million).

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and related expenses, amounted to approximately HK$188.6 million (equivalent to approximately RMB155.0 million), was intended to be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Nonetheless, the Board constantly evaluates the prospect of the retail market and the PRC's economic conditions to determine the most efficient and effective method to deploy the Group's resources. As reference is made to the announcement issued by the Company dated 24 October 2016, the Board considered that if the net proceeds were still allocated as the original manner as stipulated in the Prospectus, it would not be cost effective and at the best interests of the Company and its Shareholders. In view of the recent slowdown in economic growth in the PRC, the Company has been slowing down the pace of opening new retail outlets and thus freeing up proceeds originally intended to be used for such purpose. With a view to better use the net proceeds from the Global Offering, the Company has decided to re-allocate parts of the unutilized proceeds to upgrade the existing retail outlets to enhance the Group's competitiveness as one of the major market players in Guangdong province and repay the bank borrowings to reduce the Group's finance costs in the manner as stated below.

	Original allocation of net proceeds		Revised allocation of the net proceeds		Utilization as at 31 December 2019		Remaining balance of net proceeds as at 31 December 2019	
	RMB million	% of net proceeds	RMB million	% of net proceeds	RMB million	% of net proceeds	RMB million	% of net proceeds
Opening of new retail outlets	116.9	75.4%	74.4	48.0%	37.9	24.5%	36.5	23.5%
Upgrading existing retail outlets	–	0.0%	14.6	9.4%	14.6	9.4%	–	0%
Repayment of bank borrowings	–	0.0%	27.9	18.0%	27.9	18.0%	–	0%
Information systems upgrades	11.2	7.2%	11.2	7.2%	11.2	7.2%	–	0%
Upgrading and expanding the existing two distribution centres	13.3	8.6%	13.3	8.6%	3.9	2.5%	9.4	6.1%
General working capital	13.6	8.8%	13.6	8.8%	13.6	8.8%	–	0%
Total	155.0	100.0%	155.0	100.0%	109.1	70.4%	45.9	29.6%

DIRECTORS' REPORT

COMPETING BUSINESS

CCOOP Group Co. Limited, the controlling shareholder of the Company (as defined in the Listing Rules) (the "Controlling Shareholder"), is principally engaged in the retail chain and department store businesses in the PRC and hence was interested in the businesses which competed or were likely to compete, either directly or indirectly, with the Group's businesses during the year ended 31 December 2019. Pursuant to rule 8.10(2) of the Listing Rules, Mr. Han Wei, being an executive Director of the Company and a director and president of the Controlling Shareholder was considered to have interest in the business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

The Directors are fully aware of, and have been discharging, their fiduciary duty to the Company with the belief that the Group's interests are adequately protected by good corporate governance practices and the involvement of the independent non-executive Directors.

Save as disclosed above, as at the date of this report, none of the Directors and their respective close associates were considered to have interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the share option scheme of the Company (the "Share Option Scheme") conditionally adopted by the resolutions in writing of the Shareholders passed on 19 August 2015. All conditions, to which the Share Option Scheme was subject to, had been fulfilled on or before the Listing Date. As at the date of this annual report, no option has been granted under the Share Option Scheme and the Company does not have any other share option scheme.

1 Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions 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 an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimise 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.

DIRECTORS' REPORT

2 Eligible Participants

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 8 below to the following (the "Eligible Participants"):

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

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

(iii) any advisers, consultants, suppliers, customers, agents and related entities to the Company or any of its subsidiaries.

3 Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares immediately following the completion of Global Offering (excluding the Shares issued upon the partial exercise of the over-allotment option relating to the Global Offering), being 28,647,700 Shares (or approximately 9.86% of the issued Shares as at the date of this annual report). Subject to the issue of a circular by the Company, the approval of the Shareholders in a general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. As at the date of this annual report, the Company does not have any other share option scheme.

DIRECTORS' REPORT

4 Maximum entitlement

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 of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company, the approval of the Shareholders in a general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting.

Any grant of options to a Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the Independent Non-Executive Directors (excluding any Independent Non-Executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial Shareholder or any Independent Non-Executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon the exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares; and

(ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in a general meeting on a poll at which all core connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

5 Exercisable Period

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

6 Vesting Period

There is no minimum period for which an option must be held before it can be exercised.

7 Consideration

Upon acceptance of the option, the grantee shall pay HK$1.0 to the Company as the consideration for the grant. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

DIRECTORS' REPORT

8 Exercise Price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

9 Life Span

No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

CONTINUING CONNECTED TRANSACTIONS

A. Non-exempt continuing connected transaction

On 21 November 2017, the Company (for itself and on behalf of its subsidiaries) renewed the master purchase goods agreement, the master sales goods agreement and the master leasing agreement dated 5 August 2015 (the "2015 Agreements"), each of which had have a term due to expire on 31 December 2017, with Foshan Shunde Lecong Supply and Marketing Group Limited (佛山市順德區樂從供銷集團有限公司) (the "Lecong Supply and Marketing Group" and together with its subsidiaries, the "Lecong Group") in order to continue to carry out the transactions contemplated under the 2015 Agreements in the ordinary and usual course of business of the Group after 31 December 2017. The renewed master purchase goods agreement (the "2018 Goods Purchase Renewal Agreement"), the renewed master sales goods agreement (the "2018 Goods Sales Renewal Agreement") and the renewed master leasing agreement (the "2018 Master Leasing Agreement") (collectively the "2018 Renewal Agreements") had substantially the same terms and conditions with the 2015 Agreements for a further term of three years commenced on 1 January 2018. Details of the 2018 Renewal Agreements were disclosed in the announcement of the Company dated 6 November 2017 (the "Announcement") and details of the 2018 Goods Purchase Renewal Agreement were disclosed in the circular of the Company dated 30 November 2017. The 2018 Goods Purchase Renewal Agreement, the transactions contemplated thereunder and the proposed annual caps had been duly passed by way of poll at the extraordinary general meeting of the Company held on 20 December 2017.

As at the date of the Announcement, approximately 56.81% interests of Lecong Supply and Marketing Group were held by Golden Prime Investment Holdings Limited (佛山市金源投資控股有限公司), and Mr. Lao Songsheng ("Mr. Lao"), a then non-executive Director, held approximately 33.98% interests of Golden Prime Investment Holdings Limited. Therefore, Lecong Supply and Marketing Group was a connected person of the Company, and the transactions contemplated under the 2018 Renewal Agreements constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

Mr. Lao resigned as a non-executive Director of the Company with effective from 2 March 2018. According to Chapter 14A of the Listing Rules, Lecong Supply and Marketing Group became no more a connected person of the Company after twelve months of Mr. Lao's resignation. Thus, all transactions between Lecong Supply and Marketing Group and the Group have not been connected transactions any more since 2 March 2019.

Purchase of goods

As part of the operations of the Group, the Group purchases goods including fresh meat and agricultural products from the Lecong Group for resale. In this regard, the Company (for itself and on behalf of its subsidiaries) and Lecong Supply and Marketing Group (for itself and on behalf of its subsidiaries) entered into the 2018 Goods Purchase Renewal Agreement whereby the Group continues to purchase goods from the Lecong Group for a term commenced on 1 January 2018.

Pursuant to the 2018 Goods Purchase Renewal Agreement, the Lecong Group has agreed to exclusively supply to the Group the fresh meat and other agricultural products the Lecong Group sourced from the farmers or other suppliers. The consideration of the transactions under the 2018 Goods Purchase Renewal Agreement will be based on: (a) historical transaction prices and amount; (b) prevailing comparable wholesale prices; and (c) discounts offered on bulk-purchase. Specific terms of the transactions will be determined on a case-by case basis and separate agreements will be entered into by the parties involved in each transaction.

The total consideration paid or payable by the Group in respect of the transactions under the 2018 Goods Purchase Renewal Agreement from 1 January 2019 to 1 March 2019 was approximately RMB7.9 million, which was within the annual cap set for the year ended 31 December 2019 of RMB56 million.

Sales of goods

As part of the operations of the Group, the Group sells daily consuming products, food products and stationery, etc. to the Lecong Group as one of the Group's bulk purchase corporate customers. In this regard, the Company (for itself and on behalf of its subsidiaries) and Lecong Supply and Marketing Group (for itself and on behalf of its subsidiaries) entered into the 2018 Goods Sales Renewal Agreement, whereby the Group continues to sell goods to the Lecong Group for a term commenced on 1January 2018.

The consideration of the transactions under the 2018 Goods Sales Renewal Agreement will be based on: (a) historical transaction prices and amount; (b) prevailing market prices; and (c) discounts offered on bulk-purchase by the Group to the bulk purchase customers. Specific terms of the transactions will be determined on a case-by case basis and separate agreements will be entered into by the parties involved in each transaction.

The total consideration received or receivable by the Group in respect of the transactions under the 2018 Goods Sales Renewal Agreement from 1 January 2019 to 1 March 2019 was approximately RMB0.5 million, which was within the annual cap set for the year ended 31 December 2019 of RMB10 million.

DIRECTORS' REPORT

Leasing of properties

As part of the operations of the Group, the Group leases properties from the Lecong Group for use as headquarters, retail outlets and logistics centres. In this regard, the Company (for itself and on behalf of its subsidiaries) and Lecong Supply and Marketing Group (for itself and on behalf of its subsidiaries) entered into the 2018 Master Leasing Renewal Agreement, whereby the Group continues to lease 22 properties from the Lecong Group for a term commenced on 1 January 2018.

The estimated rents (also the annual caps) under the 2018 Master Leasing Renewal Agreement were determined at arm's length and reflected the market rates. The parties involved will separately enter into a tenancy agreement in respect of each property. The Group will ensure that the rent of each tenancy agreement under the 2018 Master Leasing Renewal Agreement shall be no less favourable to the Group than those offered by independent third parties for similar leasing property(ies).

The total rent paid or payable by the Group in respect of the transactions under the 2018 Master Leasing Renewal Agreement from 1 January 2019 to 1 March 2019 was approximately RMB0.3 million, which was within the annual cap set for the year ended 31 December 2019 of RMB15 million. Lower rent paid or payable by the Group as compared to the estimated rents was mainly due to the partial rental wavier obtained from the Lecong Group and rental saving resulting from rental area reduction of a particular retail outlet.

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2018 Renewal Agreements are fair and reasonable, on normal commercial terms and in the ordinary and usual course of the business of the Group, and in the interests of the Company and the shareholders of the Company (the "Shareholders") as a whole.

B. Continuing connected transaction exempt from the approval of independent Shareholders

On 8 June 2018, the Company (for itself and on behalf of its subsidiaries) entered into the master goods sales agreement (the "Goods Sales Agreement") with CCOOP Group Co., Ltd. ("CCOOP") (供銷大集集團股份有限公司) (for itself and on behalf of its subsidiaries) in relation to the sale of daily consuming products, food products and stationery (the "Relevant Goods") to CCOOP and its subsidiaries for a period commenced on 8 June 2018 and expiring on 31 December 2020 with an option to renew for a further term of three years.

As at 8 June 2018, CCOOP is a controlling shareholder of the Company which indirectly holds approximately 70.42% interests of the Company. Therefore, CCOOP is a connected person of the Company, and the transactions contemplated under the Goods Sales Agreement will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Given that more than one of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the proposed annual caps for the transactions contemplated under the Goods Sales Agreement are above 0.1% but less than 5%, the Goods Sales Agreement and the transactions contemplated thereunder will be subject to report, annual review and announcement requirements but is exempt from the independent Shareholders' approval under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

The consideration of the transactions contemplated under the Goods Sales Agreement will be based on prevailing market prices and discount rate we offer to other bulk purchase customers. Specific terms of the transactions will be determined on a case-by-case basis and separate agreements will be entered into by the parties.

The annual caps for the three years ending 31 December 2020 under the Goods Sales Agreement are RMB20 million, RMB26 million and RMB26 million respectively. They were determined by reference to various factors, including but not limited to, (i) commencement date of the connected transaction; (ii) expected demand for the Relevant Goods; and (iii) expected increase in the market prices of the Relevant Goods.

The total payment received or receivable to the Group in respect of the transactions under the Goods Sales Agreement for the year ended 31 December 2019 was approximately RMB5.4 million, which was within the annual cap set for the year ended 31 December 2019 of RMB26 million.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Goods Sales Agreement are fair and reasonable, on normal commercial terms and in the ordinary and usual course of the business of the Group, and in the interests of the Company and the Shareholders as a whole.

Confirmation from the Auditor and Independent Non-Executive Directors

The Company's auditor, SHINEWING (HK) CPA Limited, was engaged to report on the Group's continuing connected transactions for the year ended 31 December 2019 in accordance with Hong Kong Standard on Assurance Engagements 3000 "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 has issued its unqualified letter containing its findings and conclusions in respect of continuing connected transactions set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

In accordance with Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the abovementioned continuing connected transactions and confirmed that these continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Company/the Group;

(ii) on normal commercial terms or better;

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

(iv) have not exceeded the relevant annual caps as disclosed in previous announcements.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

Termination of Connected Transactions

It has come to the attention of the Board that the following agreements (the "Agreements") were entered into without the knowledge of the Board as a whole:

	Agreement A	**Agreement B**
Agreement date:	1 January 2019	31 January 2019
Party A:	Foshan Shun Ke Long Commerce Company Limited (佛山市順客隆商業有限公司), a wholly-owned subsidiary of the Company	Foshan Shunde Mingjian Trading Company Limited (佛山市順德區名建貿易有限公司), a wholly-owned subsidiary of the Company
Party B:	Hainan Gongxiao Daji Holding Limited (海南供銷大集控股有限公司) ("Hainan Gongxiao Daji")	Hainan Gongxiao Daji
Subject matter:	A framework procurement agreement pursuant to which Party A shall purchase durians supplied by Party B	A framework procurement agreement pursuant to which Party A shall purchase sugar supplied by Party B
Contract amount:	RMB145,000,000	RMB100,000,000
Duration:	One year	One year
Payment terms:	Prepayment: Party A shall make an upfront payment of 30% of the contract amount	Prepayment: Party A shall make an upfront payment of 40% of the contract amount

Upon enquiry, the relevant staff members of Foshan Shun Ke Long Commerce Company Limited and Foshan Shunde Mingjian Trading Company Limited explained that the Agreements were entered into because they believed that Hainan Gongxiao Daji had better bargaining power to purchase the goods on better terms, and that in their view the Agreements were entered into on an arm's length basis.

In accordance with the terms of the Agreements, payments amounting to RMB43,500,000 and RMB40,000,000 were paid to Hainan Gongxiao Daji on 2 January 2019 and 2 February 2019 respectively.

On 6 May 2019, each of Foshan Shun Ke Long Commerce Company Limited and Foshan Shunde Mingjian Trading Company Limited entered into a termination agreement with Hainan Gongxiao Daji to terminate Agreement A and Agreement B respectively (together, the "Termination Agreements"). The full amount of prepayment was refunded to our Group on 7 May 2019. The Group has not purchased any goods from Hainan Gongxiao Daji under the Agreements.

DIRECTORS' REPORT

Hainan Gongxiao Daji is a wholly-owned subsidiary of CCOOP Group which is the controlling shareholder of the Company. Therefore, Hainan Gongxiao Daji is a connected person of the Company, and transactions contemplated under the Agreements (the "Contemplated Transactions"), on an aggregated basis pursuant to Rule 14A.81 of the Listing Rules, would have been subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14A of the Listing Rules. Since such requirements were not duly complied with, the Company was in breach of the applicable requirements under Chapter 14A of the Listing Rules.

The Board as a whole was not informed of the Contemplated Transactions or the termination thereof until it was so informed in August 2019 during a review exercise. The reason for failure to identify the Contemplated Transactions as connected transactions was that the staff members and the executive Director who were responsible for reviewing and approving the Contemplated Transactions failed to notify the Board as they mistakenly believed that because no actual purchase of goods had been conducted, the Contemplated Transactions would not be subject to the Listing Rules requirements.

The Board has taken some remedial actions to ensure that the Listing Rules are strictly complied. Reference should be made to the announcement of the Company dated 23 August 2019 for details.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the normal course of business are set out in note 31 to the Financial Statements. Those related party transactions, which constituted connected transactions not being exempt from annual reporting requirement under the Listing Rules, are set out in the sections headed "Continuing Connected Transactions" and "Connected Transactions" above.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers all of the independent non-executive Directors are independent in accordance with rule 3.13 of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, none of the Directors, the Chief Executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, so far as was known to the Directors of the Company, the interests or short position of persons, other than the Directors or the Chief Executive of the Company, in the Shares and underlying shares of the Company which would be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Shares (long position)	Approximate percentage of shareholding
Cihang Sino-Western Cultural and Educational Exchange Foundation Limited (Note)	Interest of a controlled corporation	204,558,317	70.42%
Pan-American Aviation Holding Company (Note)	Interest of a controlled corporation	204,558,317	70.42%
Tang Dynasty Development Co., Ltd. (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Province Cihang Foundation (Note)	Interest of a controlled corporation	204,558,317	70.42%
Tang Dynasty Development (Yangpu) Company Limited (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Traffic Administration Holding Co., Ltd. (Note)	Interest of a controlled corporation	204,558,317	70.42%
HNA Group Co., Ltd. (Note)	Interest of a controlled corporation	204,558,317	70.42%
CCOOP Group Co., Ltd. (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Gongxiao Daji Holding Ltd. (Note)	Interest of a controlled corporation	204,558,317	70.42%
Hainan Gongxiao Daji Supply Chain Network Technology Ltd. (Note)	Interest of a controlled corporation	204,558,317	70.42%
Green Industrial (HK) Holding Co., Limited (Note)	Interest of a controlled corporation	204,558,317	70.42%
CCOOP International Holdings Limited	Beneficial owner	204,558,317	70.42%
Infini Capital Management	Beneficial owner	27,600,000	9.50%
Golden Prime Holdings Limited	Beneficial owner	25,988,000	8.95%

Note: These parties were deemed to have interests in 204,558,317 Shares by virtue of their equity interests in CCOOP International Holdings Limited.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

No Director has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the Financial Statements of this annual report headed "Related Party Transactions" and the section headed "Continuing Connected Transactions" and "Connected Transactions" above, the Group did not have any transaction, arrangement, or contract of significance subsisting as at 31 December 2019 or during the year ended 31 December 2019 in which a Director or an entity connected with a Director was, either directly or indirectly, materially interested.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

During the year ended 31 December 2019, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives of the Company (including their spouse and children under 18 years of age) to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

CHANGES IN DIRECTORS' INFORMATION UNDER RULE 13.51B (1) OF THE LISTING RULES

Positions held with the Company

Mr. Sun Kin Ho Steven ("Mr. Sun") was appointed as Chief Executive Officer, a member of the Remuneration Committee and one of the authorised representatives of the Company under Rule 3.05 of the Listing Rules with effective from 27 September 2019.

Positions held with other listed companies

Mr. Sun has resigned as the Co-Chairman of the Board, the chairman of the nomination committee, a member of the remuneration committee, an authorised representative of Tysan Holdings Limited ("Tysan") (previously known as Hong Kong International Construction Investment Management Group Co., Limited, a company listed on The Stock Exchange of Hong Kong Limited, stock code: 687) with effective from 11 April 2019. Mr. Sun resigned as executive director of Tysan with effective from 1 January 2020.

Mr. Wang Fu Lin was re-designated from the general manager of the investment innovation department to the general manager of the board office of CCOOP Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000564) on 13 November 2018.

Mr. Chong Kin Ho has resigned as a member of the audit committee of Tysan with effective from 11 April 2019, and resigned as an independent non-executive director of Tysan with effective from 3 May 2019.

DIRECTORS' REPORT

Changes in Directors' professional qualifications

Mr. Tung Chia Hung Michael obtained a master degree of Science in Global Finance from The Hong Kong University of Science and Technology and New York University in June 2019.

Mr. Chen Cheng Lien obtained an EMBA degree at China Europe International School in Shanghai, the PRC in August 2019.

Changes in Directors' emoluments

Name of Directors	Revised Directors' annual remuneration (HK$)	Year-end performance-based remuneration (HK$)	Effective date
Mr. Sun Kin Ho Steven	2,062,500	Up to 687,500 (Note)	1 October 2019
Mr. Chong Kin Ho	240,000	n/a	1 January 2020
Mr. Tung Chia Hung Michael	180,000	n/a	1 January 2020
Mr. Chen Cheng Lien	180,000	n/a	1 January 2020

Note: Mr. Sun Kin Ho Steven's year-end performance based remuneration is subject to be reviewed by the Remuneration Committee every year, and is up to HK$687,500.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS AND REMUNERATION POLICY

Details of the Directors' remuneration and five highest paid individuals of the Group are set out in note 9 to the consolidated financial statements.

The Remuneration Committee has reviewed overall remuneration policy and structure relating to all Directors and senior management members of the Group in reference to the Group's operating results and individual performance.

The Company also adopted a share option scheme on 19 August 2015. Details of which are set out in the section headed "Share Option Scheme" of this directors' report.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in the section "Continuing Connected Transactions" and "Connected Transactions", no contract of significance was entered into between the Company, or any of its subsidiaries, and any controlling shareholder or any its subsidiaries during the year ended 31 December 2019.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with a Director or any person engaged in the full-time employment of the Company, 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 ended 31 December 2019.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

According to Article 164 of the articles of association of the Company, the Directors shall 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 they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors and senior management arising out of corporate activities for the year ended 31 December 2019 and up to date of this annual report, and such permitted indemnity provision is currently in force.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or applicable laws of the Cayman Islands where the Company is incorporated.

TAX RELIEF

The Company is not aware of any tax relief available for the Shareholders by reason of their holding of the Shares.

EMOLUMENT POLICY

Employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications, competence and contribution to the Group. The Company also has adopted the Share Option Scheme as a long-term incentive scheme of the Group.

DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 9 the Financial Statements of this annual report. The Directors' remunerations, bonuses and other compensation are determined by the board with recommendations of the Remuneration Committee under reference to the Directors' workload, responsibilities and the Group's performance and results.

PROPERTY HELD

As at 31 December 2019, there was no property held for development and/or sale or for investment purpose for which the percentage ratios, as defined under Rule 14.04(9) of the Listing Rules, exceeded 5%.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the Shareholders as at 31 December 2019 amounted to RMB169.9 million.

DIRECTORS' REPORT

AUDITOR

SHINEWING (HK) CPA Limited has been auditors of the Company since 29 December 2017 instead of BDO Limited. The financial statements for the year ended 31 December 2019 have been audited by SHINEWING (HK) CPA Limited. SHINEWING (HK) CPA Limited will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. A resolution for the reappointment of SHINEWING (HK) CPA Limited as the auditors of the Company is expected to be proposed at the forthcoming annual general meeting of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the percentages of purchases from the Group's largest supplier and the five largest suppliers were 5.4% and 23% respectively. As at 31 December 2019, the percentage of revenue attributable to the Group's five largest customers was less than 10%.

During the year ended 31 December 2019, none of the Directors or any of their close associates, or any Shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 40 to 49 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules for the year ended 31 December 2019 and up to the date of this annual report.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the Financial Statements and met with the auditors of the Company, without the presence of the executive Directors. In addition, the Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company, risk management and internal control systems with senior management members of the Company.

EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2019 and up to the date of this annual report.

DIRECTORS' REPORT

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company ("AGM") will be held on Monday, 8 June 2020 at 10/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong. The register of members of the Company will be closed from Wednesday, 3 June 2020 to Monday, 8 June 2020, both days inclusive, during which period no transfer of shares will be effected.

In order to be entitled to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 2 June 2020.

By order of the Board
Sun Kin Ho Steven
Chairman and Executive Director
and Chief Executive Officer

Hong Kong, 30 March 2020

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF CHINA SHUN KE LONG HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Shun Ke Long Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 73 to 148, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 2019, 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 (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "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") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

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.

Impairment test on retail outlet operation cash generating units

Refer to notes 13, 14 and 17 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group's retail outlet operation cash generating units ("Retail outlet CGUs") consisted of goodwill and certain property, plant and equipment and right-of-use assets with carrying values of nil, RMB42,822,000 and RMB90,090,000 respectively as at 31 December 2019. During the year ended 31 December 2019, impairment losses of RMB2,958,000, RMB641,000 and RMB481,000 were recognised against goodwill, property, plant and equipment and right-of-use assets respectively in relation to retail outlet operation cash generating unit in Macau. We have identified the impairment assessment of the Retail outlet CGUs as a key audit matter because of its significance to the consolidated financial statements and because determination of the recoverable amount of the relevant cash generating units required significant management judgement and assumptions made for the profit and cash flow forecasts.	Our audit procedures were designed to assess the reasonableness of the selection of valuation model, adoption of key assumptions and input data by reference to the historical information together with other external available information. In particular, we have tested the future cash flow forecast prepared by management on whether it is agreed to the budget approved by the directors of the Company and compared the budget with actual results available up to the report date. We have also evaluated the appropriateness of the assumptions, including the future revenue, the future expenses and profit margin, against latest market expectations. We have also assessed the discount rate employed in the calculation of value in use by reviewing its basis of calculation and comparing its input data to market sources. As any changes in these assumptions and input to valuation model may result in significant financial impact, we have tested management's sensitivity analysis in relation to the key inputs to the impairment assessment which included changes in future revenue and expenses.

INDEPENDENT AUDITOR'S REPORT

Valuation of trade receivables

Refer to note 20 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the Group had trade receivables of RMB23,587,000. Allowance for impairment of trade receivables is based on expected credit losses ("ECL"), which is estimated by taking into account the credit loss experience and forward-looking information including both current and forecast general economic conditions. We have identified valuation of trade receivables as a key audit matter because the impairment assessment of trade receivables involved a significant degree of management judgement and may be subject to management bias.	Our audit procedures were designed to assess the assumptions and judgements of the Group's ECL model on impairment assessment of trade receivables. We have assessed the reasonableness of management's estimates for impairment allowance by examining the information used by management to form such judgements, including testing accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information. We have also inspected cash received from debtors after year end relating to trade receivable balance as at 31 December 2019 on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report 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.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible 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, solely to you, as a body, in accordance with our agreed terms of engagement, 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 skepticism 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 of the Company.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the Company's 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 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 audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 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 Pang Wai Hang.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	6	**945,221**	986,998
Cost of inventories sold		**(810,435)**	(843,724)
Gross profit		**134,786**	143,274
Other operating income	6	**37,721**	55,046
Selling and distribution costs		**(144,774)**	(142,174)
Administrative expenses		**(33,678)**	(34,771)
Finance costs	7	**(10,084)**	(4,835)
Impairment loss recognised in respect of goodwill	17	**(2,958)**	—
Impairment loss recognised in respect of property, plant and equipment	13	**(641)**	—
Impairment loss recognised in respect of right-of-use assets	14	**(481)**	—
(Loss) profit before tax	8	**(20,109)**	16,540
Income tax expense	10	**(450)**	(5,138)
(Loss) profit for the year		**(20,559)**	11,402
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements from functional currency to presentation currency		**776**	2,370
(Loss) profit and total comprehensive (expense) income for the year		**(19,783)**	13,772
(Loss) profit for the year attributable to:			
Owners of the Company		**(20,626)**	11,247
Non-controlling interests		**67**	155
		(20,559)	11,402
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(19,850)**	13,617
Non-controlling interests		**67**	155
		(19,783)	13,772
(Loss) earnings per share	11		
Basic (RMB)		**(0.07)**	0.04
Diluted (RMB)		**(0.07)**	0.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	13	**44,506**	50,452
Right-of-use assets	14	**97,488**	–
Prepaid land lease	15	**–**	31,166
Investment properties	16	**10,005**	4,122
Deposits paid	18	**11,376**	9,293
Goodwill	17	**–**	2,897
		163,375	97,930
Current assets			
Inventories	19	**130,848**	121,656
Trade receivables	20	**23,587**	24,456
Deposits paid, prepayments and other receivables	18	**108,280**	115,942
Amounts due from related companies	26	**3,195**	913
Financial assets at fair value through profit or loss	21	**20,000**	20,000
Deposit with a bank	22	**25,243**	40,000
Cash and cash equivalents	22	**122,635**	121,723
		433,788	444,690
Current liabilities			
Trade payables	23	**116,252**	112,327
Deposits received, receipts in advance, accruals and other payables	24	**26,870**	32,903
Lease liabilities	14	**17,675**	–
Contract liabilities	25	**13,107**	10,278
Bank borrowings	27	**–**	108,000
Tax payable		**190**	1,224
		174,094	264,732
Net current assets		**259,694**	179,958
Total assets less current liabilities		**423,069**	277,888

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current liability			
Lease liabilities	14	**57,472**	–
Bank borrowings	27	**108,000**	–
		165,472	–
Net assets		**257,597**	277,888
Capital and reserves			
Share capital	28	**2,387**	2,387
Reserves		**253,935**	273,785
Equity attributable to owners of the Company		**256,322**	276,172
Non-controlling interests		**1,275**	1,716
Total equity		**257,597**	277,888

The consolidated financial statements on pages 73 to 148 were approved and authorised for issue by the board of directors on 30 March 2020 and are signed on its behalf by:

Sun Kin Ho Steven
Director

Han Wei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Equity attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Merger reserve RMB'000 (Note b)	Capital reserve RMB'000 (Note c)	Statutory reserve RMB'000 (Note d)	Capital contribution reserve RMB'000 (Note e)	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	2,387	169,904	84	(6,200)	200	13,491	873	3,417	78,399	262,555	1,561	264,116
Profit for the year	–	–	–	–	–	–	–	–	11,247	11,247	155	11,402
Other comprehensive income for the year												
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	–	–	–	–	–	–	2,370	–	2,370	–	2,370
Total comprehensive income for the year	–	–	–	–	–	–	–	2,370	11,247	13,617	155	13,772
Transfer to statutory reserve	–	–	–	–	–	1,665	–	–	(1,665)	–	–	–
Balance at 31 December 2018 and 1 January 2019	2,387	169,904	84	(6,200)	200	15,156	873	5,787	87,981	276,172	1,716	277,888
(Loss) profit for the year	–	–	–	–	–	–	–	–	(20,626)	(20,626)	67	(20,559)
Other comprehensive income for the year												
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	–	–	–	–	–	–	776	–	776	–	776
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	776	(20,626)	(19,850)	67	(19,783)
Transfer to statutory reserve	–	–	–	–	–	321	–	–	(321)	–	–	–
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(508)	(508)
Balance at 31 December 2019	2,387	169,904	84	(6,200)	200	15,477	873	6,563	67,034	256,322	1,275	257,597

Notes:

(a) Special reserve

Special reserve represents the investment cost of a subsidiary which has been carved out of the Group as part of the reorganisation and the proceeds from disposal of that subsidiary.

(b) Merger reserve

The merger reserve of the Group arose as a result of the reorganisation. As at 31 December 2019 and 2018, the balance of merger reserve included the deemed distribution upon the acquisition of a subsidiary from the controlling shareholders as part of the reorganisation.

(c) Capital reserve

Capital reserve represents the capital contribution from the previous shareholders to a subsidiary of the Group.

(d) Statutory reserve

In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

(e) Capital contribution reserve

Capital contribution reserve of the Group represented the capital contribution upon acquisition of the net assets of a subsidiary pursuant to a group reorganisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(20,109)**	16,540
Adjustments for:		
Interest income on bank deposits	**(1,708)**	(2,264)
Interest income from financial assets at fair value through profit or loss ("FVTPL")	**(425)**	—
Amortisation of prepaid land lease	**—**	1,058
Depreciation of investment properties	**601**	123
Depreciation of property, plant and equipment	**12,257**	11,511
Depreciation of right-of-use assets	**21,312**	—
Gain on deregistration of subsidiary	**(2)**	—
Impairment loss recognised in respect of goodwill	**2,958**	—
Impairment loss recognised in respect of property, plant and equipment	**641**	—
Impairment loss recognised in respect of right-of-use assets	**481**	—
Finance costs	**10,084**	4,835
Net (gain) loss on disposals of property, plant and equipment	**(36)**	47
Obsolete inventories written-off	**1,674**	1,217
Operating cash flows before movements in working capital	**27,728**	33,067
Increase in inventories	**(10,866)**	(15,810)
Decrease in trade receivables	**874**	14,703
Decrease (increase) in deposits paid, prepayments and other receivables	**3,191**	(5,543)
(Increase) decrease in amounts due from related companies	**(2,282)**	4,039
Increase in trade payables	**3,864**	1,957
Decrease in deposits received, receipts in advance, accruals and other payables	**(1,313)**	(5,027)
Increase (decrease) in contract liabilities	**2,829**	(7,427)
Decrease in amounts due to related companies	**—**	(820)
Cash generated from operations	**24,025**	19,139
Income tax paid	**(1,484)**	(6,803)
Interest received	**2,402**	932
NET CASH FROM OPERATING ACTIVITIES	**24,943**	13,268
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(8,228)**	(14,291)
Purchases of financial assets at FVTPL	**(192,000)**	(20,000)
Proceeds from disposal of financial assets at FVTPL	**192,425**	—
Withdrawal (placement) of a deposit with a bank	**14,757**	(40,000)
Proceeds received on disposals of property, plant and equipment	**735**	4,753
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**7,689**	(69,538)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**108,000**	108,000
Bank borrowings repaid	**(108,000)**	(92,000)
Repayment of capital element of lease liabilities	**(22,428)**	–
Interest paid on lease liabilities and bank borrowings	**(10,084)**	(4,835)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(32,512)**	11,165
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**120**	(45,105)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**121,723**	164,512
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**792**	2,316
CASH AND CASH EQUIVALENTS AT END OF YEAR	**122,635**	121,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL

China Shun Ke Long Holdings Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group") was incorporated as an exempted company with limited liability in the Cayman Islands on 18 March 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office is located at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, the Cayman Islands and its principal place of business in the PRC is located at Floor 3, Huale Building, No.60 Hebin North Road, Lecong Town Shunde District, Foshan, Guangdong Province 528315, the PRC.

The Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 May 2015. The ordinary shares of the Company (the "Shares") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 September 2015.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 36.

CCOOP International Holdings Limited, which is a company incorporated in the Cayman Islands and an indirectly wholly-owned subsidiary of CCOOP Group Co., Ltd. ("CCOOP Group"), a company incorporated in the PRC, holds 204,558,317 ordinary shares in aggregate, representing 70.42% of the entire issued share capital of the Company. In the opinion of the directors of the Company, the holding company of the Company is CCOOP Group, the shares of which are listed on the Shenzhen Stock Exchange.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the principal subsidiaries of the Group where the primary economic environment is in the PRC. Other than the subsidiaries established in the PRC and Macau which functional currencies are RMB and Macau Pataca ("MOP") respectively, the functional currency of the Company and other subsidiaries is Hong Kong dollars ("HK$"). All values are rounded to the nearest thousand ("RMB'000") unless otherwise stated.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)")

In the current year, the Group has applied, for its first time, the following new and amendments to IFRSs, which include IFRSs, International Accounting Standards ("IAS(s)"), amendments and interpretations ("Int(s)") issued by the International Accounting Standards Board (the "IASB") and the IFRS Interpretations Committee ("IFRIC") of the IASB.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") – *continued*

The adoption of IFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarised below.

The application of other new and amendments to IFRSs in the current year has had no material effect on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on adoption of IFRS 16 *Leases*

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3. The Group has applied IFRS 16 *Leases* retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17 *Leases*.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019

The Group as lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases* (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 ranged from 3.09% to 6.28%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group as lessor

The Group leases some of its properties. The accounting policies applicable to the Group as lessor remain substantially unchanged from those under IAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") – *continued*

Impacts on adoption of IFRS 16 *Leases* – *continued*

The Group as lessor – *continued*

For sublease, under IAS 17, the head lease and sublease contracts were classified as operating leases. On transition to IFRS 16, the Group reassessed these sublease contracts by reference to the right-of-use assets arising from the head lease, instead of by reference to the underlying asset, and concluded that they are operating leases under IFRS 16, the head leases are recognised as right-of-use assets as they do not meet the definition of investment property.

The following table summaries the impact of transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Notes	Carrying amount previously reported at 31 December 2018 RMB'000	Impact on adoption of IFRS 16 RMB'000	Carrying amount as restated at 1 January 2019 RMB'000
Right-of-use assets	a–d	–	109,667	109,667
Prepaid lease payments	b	31,166	(31,166)	–
Investment properties	b	4,122	4,866	8,988
Deposits paid, prepayments and other receivables	c	115,942	(1,208)	114,734
Deposits received, receipts in advance, accruals and other payables	d	(32,903)	4,776	(28,127)
Lease liabilities	a	–	(86,935)	(86,935)

Notes:

(a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liability of RMB86,935,000.

(b) Prepaid lease payments of RMB31,166,000 which represent the upfront payments for leasehold lands in the PRC as at 31 December 2018 were reclassified to right-of-use assets and investment properties RMB26,300,000 and RMB4,866,000 respectively.

(c) Prepaid rental of RMB1,208,000 was adjusted to right-of-use assets on transition to IFRS 16.

(d) It represents the accrued lease liabilities for leases where the lessor has provided rent-free period, and was adjusted to right-of-use assets on transition to IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") – *continued*

Impacts on adoption of IFRS 16 *Leases* – *continued*

In the consolidated statement of cash flow, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. The total cash flows are unaffected.

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follows:

	RMB'000
Operating lease commitment disclosed as at 31 December 2018	100,603
Less: Short-term leases and other leases with remaining lease term ended on or before 31 December 2019	(893)
Discounted using the incremental borrowing rate at 1 January 2019	(12,775)
Lease liabilities recognised as at 1 January 2019	86,935
Analysed as	
Current portion	22,376
Non-current portion	64,559
	86,935

On the date of initial application of IFRS 16, the Group has also used the following practical expedients permitted by the standard, where applicable:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") – *continued*

Impacts on adoption of IFRS 16 *Leases* – *continued*

- reliance on assessments on whether leases are onerous by applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts[2]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2023
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2022

The directors of the company anticipate that the application of other new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of consolidation – *continued*

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less identified impairment loss.

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Owned investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Effective from 1 January 2019, investment properties also included leased properties which are being recognised as right-of-use assets upon application of IFRS 16.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

If an item of property, plant and equipment becomes an investment property when there is a change is use, the carrying amount of that item at the date of transfer is the deemed cost for subsequent accounting for that property as an item of investment property.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Deposit with a maturity over three months that are not readily convertible into known amounts of cash are defined as deposit with a bank in the consolidated statement of financial position.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Amortised cost and effective interest method – continued

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECL, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in "Other operating income" (note 6).

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Financial assets at FVTPL – continued

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the 'other operating income' line item. Fair value is determined in the manner described in note 39.

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost and lease receivable. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, lease receivables and trade-related amounts due from related companies. The ECL 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, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Significant increase in credit risk – continued

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic; or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Definition of default – continued

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date and other relevant forward-looking information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – *continued*

Measurement and recognition of ECL – continued

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases (on or after 1 January 2019) or IAS 17 Leases (prior to 1 January 2019).

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

The Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial liabilities and equity instruments – *continued*

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as FVTPL are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Impairment losses on non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGU. An impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment losses on non-financial assets – *continued*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or services.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Revenue recognition – *continued*

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

For a single contract with the customer, either a net contract asset or a net contract liability is presented.

The Group recognised revenue from the following major sources:

- merchandise sales from retail outlet operation and wholesale distribution
- commission from concessionaire sales
- promotion income from suppliers

Merchandise sales from retail outlet operation and wholesale distribution

For the general retail sales under retail outlet operation, revenue is recognised when control passes to the retail customers, being the point the retail customers purchase the goods at the retail outlets. Payment of transaction price is due immediately at the point the retail customers purchase the goods. The payment is usually settled in cash, using credit cards or by means of electronic payment.

Revenue from bulk sales of goods to retail customers under retail outlet operation is recognised when control of products has transferred, being when the products are delivered and there is no unfulfilled obligation that could affect them to accept the products. The retail customers make payments upon products delivery or according to the agreed credit terms normally for a period of 0–180 days from the invoice date. Collected payments before product delivery is recognised as contract liabilities.

The Group's retail outlet operation operates a customer loyalty incentive program organised by an independent third party which allows customers to accumulate points when they purchase products. The points can be redeemed for cash rewards or free products, subject to a minimum number of points obtained, provided by the Group or another entities who join the program. The customer loyalty incentive programme gives rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the customer loyalty incentive programme based on relative standalone selling price. Such consideration is not recognised as revenue at the time of initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Revenue recognition – *continued*

Merchandise sales from retail outlet operation and wholesale distribution – *continued*

Revenue from sales of goods to wholesalers or franchisees is recognised when control of the products has transferred, being when the products are delivered to the wholesalers or the franchisees and there is no unfulfilled obligation that could affect them to accept the products. The wholesalers or franchisees make payments upon products delivery or according to the agreed credit terms normally for a period of 0–180 days from the invoice date. Collected payments before product delivery is recognised as contract liabilities.

Commission income from concessionaire sales

The Group grants counter suppliers the right to operate business within retail outlets under a concession. The Group recognises commission income from concessionaire sales upon sales of goods or provision of services by counter suppliers. The Group receives the gross proceeds of concessionaire sales from retail customers on behalf of the counter suppliers and subsequently transfers the proceeds to the counter suppliers after deducting the commission income, out of pocket expenses, expenses in relation to the promotional activities and other administrative expenses according to the terms of the relevant concessionaire agreements.

Promotion income from suppliers

The Group arranges promotion of products with respective suppliers and promotion income from suppliers are attributable to these promotional events and activities. Promotion income from suppliers is recognised when promotion services are rendered according to the terms of promotion service agreements.

Leasing

Policy applicable on or after 1 January 2019

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leasing – *continued*

Policy applicable on or after 1 January 2019 – *continued*

The Group as lessee – continued

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leasing – *continued*

Policy applicable on or after 1 January 2019 – *continued*

The Group as lessee – continued

Right-of-use assets – *continued*

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment property".

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in "Selling and distribution expenses" in the consolidated statement of profit or loss and other comprehensive income.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties and leased retail areas. Leases for which the Group is a lessor is classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. If the head lease is a short-term lease to which the Group applies the exemption described above, the sublease shall be classified as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Lease modification – *continued*

The Group as lessor – continued

Sublease – *continued*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Policy applicable prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expenses on a straight-line basis.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

Short-term and other long-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from (loss) profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or form the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation – *continued*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss.

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories and value in use of property, plant and equipment for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

Key sources of estimation uncertainty – *continued*

Impairment assessment on retail outlet operation cash generating units ("Retail outlet CGUs")

The Group's Retail outlet CGUs consist of goodwill, certain property, plant and equipment and right-of-use assets. In determining whether there is any impairment loss of the Retail outlet CGUs, management estimated the recoverable amounts of the Retail outlet CGUs based on the value in use calculation. The value in use calculation is prepared by an independent professional valuer based on the management's assumptions and estimates taking into account the existing business plan and other strategic business development. These calculations require the use of estimates such as the future revenue, expenses and discount rates.

As at 31 December 2019, the carrying values of goodwill, related property, plant and equipment and related right-of-use assets were nil (31 December 2018: RMB2,897,000), RMB42,822,000 (31 December 2018: RMB48,300,000) and RMB90,090,000 (1 January 2019: RMB102,268,000) respectively. Impairment losses of RMB2,958,000 (2018: nil), RMB641,000 (2018: nil) and RMB481,000 were recognised against goodwill, property, plant and equipment and right-of-use assets respectively in relation to retail outlet operation CGU in Macau during the year ended 31 December 2019.

Impairment of trade receivables

The impairment provision for trade receivables is based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases on the number of days that an individual receivable is outstanding as well as the Group's historical credit loss experience, existing market conditions and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to profit or loss. As at 31 December 2019, the carrying amount of trade receivables was RMB23,587,000 (2018: 24,456,000). No impairment losses were recognised for both years.

Allowance for inventories

The Group makes the allowance for inventories based on assessments of the net realisable value and ageing analysis of inventories and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2019, the carrying amount of inventories was RMB130,848,000 (2018: RMB121,656,000). During the year ended 31 December 2019, obsolete inventories written off of RMB1,674,000 (2018: RMB1,217,000) was recognised.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the period and the estimate will be changed in the future period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker ("CODM"), being the chief executive of the Company, that are used to make strategic decisions. The Group has two reportable segments. The segments are managed separately as each business offers different services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Retail outlet operation (sales of fresh food, non-staple food and household products); and
- Wholesale distribution (sales of fast consumable products and non-staple food)

The management assesses the performance of the operating segments based on the measure of segment results which represents the net of revenue, cost of inventories sold, other operating income, selling and distribution costs, administrative expenses and finance costs directly attributable to each operating segment without allocation of certain other operating income and central administrative costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Segment revenue and results

For the year ended 31 December 2019

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
REVENUE				
From external customers	664,450	280,771	–	945,221
From inter-segment	48,149	14,227	(62,376)	–
Reportable segment revenue	712,599	294,998	(62,376)	945,221
Reportable segment (loss) profit	(12,095)	464		(11,631)
Other corporate income				636
Other corporate expenses				(9,114)
Loss before tax				(20,109)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5. OPERATING SEGMENT INFORMATION – *continued*

Segment revenue and results – *continued*

For the year ended 31 December 2018

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
REVENUE				
From external customers	725,901	261,097	–	986,998
From inter-segment	60,501	3,876	(64,377)	–
Reportable segment revenue	786,402	264,973	(64,377)	986,998
Reportable segment profit	22,075	74		22,149
Other corporate income				529
Other corporate expenses				(6,138)
Profit before tax				16,540

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

	2019 RMB'000	2018 RMB'000
Retail outlet operation	**406,541**	403,560
Wholesale distribution	**163,028**	103,076
Total segment assets	**569,569**	506,636
Other corporate assets *(Note)*	**27,594**	35,984
Group's assets	**597,163**	542,620
Retail outlet operation	**320,616**	251,568
Wholesale distribution	**16,885**	11,980
Total segment liabilities	**337,501**	263,548
Other corporate liabilities *(Note)*	**2,065**	1,184
Group's liabilities	**339,566**	264,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. OPERATING SEGMENT INFORMATION – *continued*

Segment assets and liabilities – *continued*

Note:

For the purpose of monitoring segment performances and allocating resources between segments:

- All assets are allocated to reportable and operating segments, other than certain cash and cash equivalents and certain property, plant and equipment.

- All liabilities are allocated to reportable and operating segments, other than other payables relating to central administrative costs.

Upon application of IFRS 16, the Group's right-of-use assets and lease liabilities are now included in the measure of segment assets and segment liabilities respectively at 31 December 2019. Comparative information is not restated.

Other segment information

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended 31 December 2019				
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	8,074	154	–	8,228
Additions to right-of-use assets	9,939	701	–	10,640
Depreciation of property, plant and equipment	11,981	264	12	12,257
Depreciation of investment properties	601	–	–	601
Depreciation of right-of-use assets	19,182	2,130	–	21,312
Obsolete inventories written-off	1,536	138	–	1,674
Net gain on disposals of property, plant and equipment	36	–	–	36
Interest income on bank deposits	710	362	636	1,708
Interest income from financial assets at FVTPL	425	–	–	425
Impairment loss recognised in respect of goodwill	2,958	–	–	2,958
Impairment loss recognised in respect of property, plant and equipment	641	–	–	641
Impairment loss recognised in respect of right-of-use assets	481	–	–	481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. OPERATING SEGMENT INFORMATION – *continued*

Other segment information – *continued*

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended 31 December 2018				
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to property, plant and equipment	14,024	267	–	14,291
Depreciation of property, plant and equipment	11,249	250	12	11,511
Depreciation of investment properties	123	–	–	123
Depreciation of prepaid land lease	1,058	–	–	1,058
Obsolete inventories written-off	1,137	80	–	1,217
Net loss on disposals of property, plant and equipment	47	–	–	47
Interest income on bank deposits	1,703	32	529	2,264

Geographic Information

The Group's revenue from external customers and its non-current assets are all divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
The PRC (place of domicile)	**916,917**	959,279	**151,987**	85,091
Macau	**28,304**	27,719	**–**	3,522
Hong Kong	**–**	–	**12**	24
	945,221	986,998	**151,999**	88,637

Deposits paid are excluded from non-current assets under geographical information.

The PRC is the country of domicile of the Group. The country of domicile is determined by referring to the country which the Group regards as its home country, has the majority of operations and centre of management.

The geographical location of customers is based on the location at which the goods were sold and the services were rendered. The geographical location of the non-current assets is based on the physical location of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. OPERATING SEGMENT INFORMATION – *continued*

Information about a major customer

	2019	2018
	RMB'000	RMB'000
Customer A*	**N/A****	128,467

* Revenue from wholesale distribution

** The corresponding revenue does not contribute over 10% of total revenue of the Group.

6. REVENUE AND OTHER OPERATING INCOME

(a) Revenue

Revenue represents revenue arising on sale of goods, net of discounts and sales related taxes, where applicable, rental income and the value of services rendered. An analysis of the Group's revenue for the year is as follows:

	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
– Sales of goods		
General retail sales under retail outlet operation *(Note)*	**631,490**	590,203
Bulk sales under retail outlet operation	**8,526**	105,591
General wholesales under wholesale distribution	**280,771**	260,263
Franchisees under wholesale distribution	**–**	834
– Services rendered		
Commission from concessionaire sales under retail outlet operation	**1,270**	523
	922,057	957,414
Revenue from other sources		
Rental income from subleasing certain retail areas under retail outlet operation		
– Lease payments that are fixed	**23,164**	29,584
	945,221	986,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. REVENUE AND OTHER OPERATING INCOME – *continued*

(a) Revenue – *continued*

Note: General retail sales included the compensation for reduced selling prices of approximately RMB163,000 and RMB270,000 from the local government in the PRC which was classified as revenue during the years ended 31 December 2019 and 2018 respectively. In the opinion of the directors of the Company, it was directly related to the sales of daily necessities food and was related to the ordinary and usual course of the business of the Group. Accordingly, it was classified as revenue of the Group.

Disaggregation of revenue from contracts with customers by timing of recognition

	2019 RMB'000	2018 RMB'000
Timing of revenue recognition		
At a point of time	**922,057**	957,414

Transaction price allocated to the remaining performance obligations

As at 31 December 2019 and 2018, all the Group's remaining performance obligations for contracts with customers are for periods of one year or less. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) as at the end of both reporting periods.

(b) Other operating income

	2019 RMB'000	2018 RMB'000
Gain on deregistration of a subsidiary	**2**	–
Government grants *(Note i)*	**1,756**	1,433
Interest income on bank deposits	**1,708**	2,264
Interest income from financial assets at FVTPL	**425**	–
Net rental income from investment properties *(Note ii)*		
Lease payments that are fixed	**1,251**	1,452
Net gain on disposals of property, plant and equipment	**36**	–
Promotion income from suppliers	**24,420**	42,671
Others	**8,123**	7,226
	37,721	55,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. REVENUE AND OTHER OPERATING INCOME – *continued*

(b) Other operating income – *continued*

Notes:

(i) Various local government grants were granted to subsidiaries of the Group in respect of certain research projects during the years ended 31 December 2019 and 2018. There were no unfulfilled conditions or contingencies attached to these government grants.

(ii) An analysis of the Group's net rental income is as follows:

	2019 RMB'000	2018 RMB'000
Gross rental income	**1,353**	1,545
Less: Outgoing incurred for investment properties that generated rental income during the year	**(102)**	(93)
Net rental income	**1,251**	1,452

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on:		
Bank borrowings	**5,882**	4,835
Lease liabilities	**4,202**	–
	10,084	4,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

8. (LOSS) PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Depreciation of property, plant and equipment	**12,257**	11,511
Depreciation of investment properties	**601**	123
Depreciation of right-of-use assets	**21,312**	–
Amortisation of prepaid land lease	**–**	1,058
Net exchange (gains) losses	**(25)**	19
Employee benefits expenses (excluding directors' remuneration *(Note 9)*):		
– Wages and salaries	**66,115**	69,454
– Pension scheme contributions	**7,432**	7,489
– Other benefits	**234**	801
	73,781	77,744
Auditor's remuneration	**1,250**	1,100
Operating lease charges in respect of land and buildings	**–**	42,567
Obsolete inventories written-off	**1,674**	1,217
Net loss on disposals of property, plant and equipment	**–**	47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

(a) The emoluments paid or payable to each of the 8 (2018: 15) directors and the chief executive officer ("CEO") were as follows:

For year ended 31 December 2019

	Mr. Han Wei	Mr. Sun Kin Ho Steven	Mr. Mung Hon Ting Jackie *(Note i)*	Total
	RMB'000	RMB'000	RMB'000	RMB'000
A) EXECUTIVE DIRECTORS:				
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries				
Fees	–	–	–	–
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries				
Other emoluments:				
Salaries and allowances	–	458	805	1,263
Pension scheme contributions	–	–	12	12
Sub-total emoluments	–	458	817	1,275

	Mr. Wang Fu Lin	Mr. Wu Limin *(Note ii)*	Total
	RMB'000	RMB'000	RMB'000
B) NON-EXECUTIVE DIRECTORS:			
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries			
Fees	–	–	–
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries			
Other emoluments:			
Salaries and allowances	–	–	–
Pension scheme contributions	–	–	–
Sub-total emoluments	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – *continued*

(a) – *continued*

For year ended 31 December 2019 – *continued*

	Mr. Chen Cheng Lien RMB'000	Mr. Chong Kin Ho RMB'000	Mr. Tung Chia Hung Michael RMB'000	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:				
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries				
Fees	53	106	53	212
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries				
Other emoluments:				
Salaries and allowances	–	–	–	–
Pension scheme contributions	–	–	–	–
Sub-total emoluments	53	106	53	212
Total emoluments				1,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – *continued*

(a) – *continued*

For year ended 31 December 2018

	Mr. Han Wei	Mr. He Jia Fu *(Note iii)*	Mr. Li Zhongxu *(Note iii)*	Mr. Sun Kin Ho Steven *(Note iv)*	Mr. Mung Hon Ting Jackie *(Note i)*	Mr. Wang Zheng *(Note v)*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
A) **EXECUTIVE DIRECTORS:**							
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries							
Fees	–	–	–	–	–	–	–
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries							
Other emoluments:							
Salaries and allowances	–	–	–	–	380	–	380
Pension scheme contributions	–	–	–	–	–	–	–
Sub-total emoluments	–	–	–	–	380	–	380

	Mr. Lao Songsheng *(Note iii)*	Mr. Wang Fu Lin	Mr. Wu Limin *(Note ii)*	Total
	RMB'000	RMB'000	RMB'000	RMB'000
B) **NON-EXECUTIVE DIRECTORS:**				
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries				
Fees	–	–	–	–
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries				
Other emoluments:				
Salaries and allowances	–	–	–	–
Pension scheme contributions	–	–	–	–
Sub-total emoluments	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – *continued*

(a) – *continued*

For year ended 31 December 2018 – *continued*

	Mr. Guan Shiping *(Note vi)*	Mr. Shin Yick Fabian *(Note vi)*	Mr. Sun Hong *(Note vi)*	Mr. Chen Cheng Lien *(Note vii)*	Mr. Chong Kin Ho *(Note vii)*	Mr. Tung Chia Hung Michael *(Note vii)*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:							
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries							
Fees	115	115	115	9	18	9	381
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries							
Other emoluments:							
Salaries and allowances	–	–	–	–	–	–	–
Pension scheme contributions	–	–	–	–	–	–	–
Sub-total emoluments	115	115	115	9	18	9	381
Total emoluments							761

Notes:

(i) Appointed on 2 March 2018 and resigned on 27 September 2019

(ii) Appointed on 31 October 2018 and resigned on 31 January 2019

(iii) Resigned on 2 March 2018

(iv) Appointed on 30 August 2018

(v) Appointed on 2 March 2018 and resigned on 30 August 2018

(vi) Resigned on 31 October 2018

(vii) Appointed on 31 October 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – *continued*

(a) – *continued*

Mr. Mung Hon Ting Jackie acts as CEO of the Company from 2 March 2018 to 27 September 2019 and his emoluments disclosed above included the services rendered by him as the CEO.

Mr. Sun Kin Ho Steven acts as CEO of the Company from 27 September 2019 to 31 December 2019 and his emoluments disclosed above included the services rendered by him as the CEO.

No directors and the CEO waived or agreed to waive any emolument during both years.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, two (2018: one) were directors including the CEO of the Company whose emoluments are included in the note 9 (a). The emoluments of the remaining three (2018: four) individuals are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries and other benefits	**1,696**	1,327
Pension scheme contributions	**77**	55
	1,773	1,382

Their emoluments were within the following bands:

	2019	2018
	No. of individuals	No. of individuals
Nil to RMB886,000 (2018: Nil to RMB865,000) (approximately Nil – HK$1,000,000)	**3**	4

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

	2019	2018
	RMB'000	RMB'000
Current – Macau		
Under provision in prior year	**9**	–
Charge for the year	**–**	36
Current – the PRC		
Under provision in prior year	**197**	975
Charge for the year	**244**	4,127
	450	5,138

The Group is not subject to any income tax under the jurisdiction of the Cayman Islands and the British Virgin Islands (the "BVI") for the years ended 31 December 2019 and 2018.

No provision for Hong Kong Profits Tax has been provided as the Group has no estimated assessable profits arising in Hong Kong for the years ended 31 December 2019 and 2018.

The Group's subsidiaries in the PRC are subject to Enterprise Income Tax at the rate of 25% based on the estimated assessable profits for the years ended 31 December 2019 and 2018.

Pursuant to circular issued by Ministry of Finance and National Tax Bureau, the small-scaled minimal profit enterprise with an annual taxable income below RMB1,000,000 (RMB1,000,000 included) is entitled to a preferential tax treatment of 75% exemption of taxable income and application of income tax rate as 20% from 1 January 2019 to 31 December 2021 (50% exemption of taxable income and application of income tax rate as 20% from 1 January 2018 to 31 December 2018). The Group's certain PRC subsidiaries were qualified during the years ended 31 December 2019 and 2018.

The Law of the PRC on Enterprise Income Tax allows enterprises to apply for the certificates of "High and New Technology Enterprise" ("HNTE") which entitles the qualified companies to a preferential income tax rate of 15%. 佛山市順客隆商業有限公司, a PRC subsidiary of the Group, has been qualified as a HNTE in 2017 and its income tax rate is 15% for the years ended 31 December 2019 and 2018.

The Group's subsidiaries in Macau are subject to Complementary Tax at rate of 12% based on estimated assessable profits for the years ended 31 December 2019 and 2018. During the year ended 31 December 2019, no Macau Complementary Income Tax has been provided as there were no assessable profits generated (2018: Provided at a rate 12% based on the estimated assessable profits).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. INCOME TAX EXPENSE – *continued*

The income tax expense for the year can be reconciled to the (loss) profit before tax for the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 RMB'000	2018 RMB'000
(Loss) profit before tax	**(20,109)**	16,540
Tax on (loss) profit before tax, calculated at the rates applicable to (loss) profit in the tax jurisdictions concerned	**(2,805)**	4,899
Tax effect of expenses not deductible for tax purposes	**1,255**	1,118
Utilisation of tax losses previously not recognised	**(507)**	(652)
Tax effect of tax losses not recognised	**3,064**	499
Tax effect of deductible temporary differences not recognised	**77**	—
Under provision in prior year	**206**	975
Income tax on concessionary rate	**(840)**	(1,701)
Income tax expense	**450**	5,138

As at 31 December 2019, no deferred tax liabilities have been recognised in respect of the temporary differences of approximately RMB92,104,000 (2018: RMB98,309,000) associated with undistributed earnings of certain subsidiaries established and operating in the PRC because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2019, the Group has unused estimated tax losses of approximately RMB9,416,000 (2018: RMB4,339,000), RMB8,635,000 (2018: RMB4,691,000) and RMB5,824,000 (2018: RMB519,000) for certain subsidiaries in the PRC, Hong Kong and Macau respectively. The tax losses incurred by the subsidiaries incorporated in the PRC (except for HNTE) and Macau will expire in five years and three years respectively from the year in which the loss originated, while the losses incurred by the subsidiaries in Hong Kong will not expire under current tax legislation in Hong Kong. With effective from 1 January 2018, the losses incurred by HNTE will expire in ten years from the year in which the loss originated. No deferred tax asset had been recognised as at 31 December 2019 and 2018 in respect of the estimated tax losses due to the unpredictability of future profit streams.

As at 31 December 2019, the Group has deductible temporary differences of approximately RMB641,000 (2018: nil). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2019	2018
	RMB'000	RMB'000
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	(20,626)	11,247

	2019	2018
Number of shares		
Weighted average number of ordinary shares in issue	290,457,000	290,457,000

The diluted (loss) earnings per share are the same as basic (loss) earnings per share as there are no potential ordinary shares outstanding during both years or at the end of both reporting periods.

12. DIVIDEND

The board of directors does not recommend the payment of final dividend for the years ended 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2018	20,180	40,227	10,666	8,455	25,324	104,852
Exchange realignment	–	3	11	4	19	37
Additions	–	7,627	553	832	5,279	14,291
Disposals	–	(8,702)	(3,640)	(841)	(1,363)	(14,546)
At 31 December 2018 and 1 January 2019	20,180	39,155	7,590	8,450	29,259	104,634
Exchange realignment	–	1	11	2	11	25
Transferred to investment properties *(Note 16)*	(681)	–	–	–	–	(681)
Additions	–	4,467	276	497	2,988	8,228
Disposals	–	(7,492)	(606)	(993)	(2,402)	(11,493)
At 31 December 2019	19,499	36,131	7,271	7,956	29,856	100,713
Accumulated depreciation and impairment						
At 1 January 2018	3,702	21,782	6,067	5,890	14,960	52,401
Exchange realignment	–	2	6	2	6	16
Depreciation provided for the year	530	4,898	1,058	979	4,046	11,511
Eliminated on disposals	–	(5,402)	(2,182)	(753)	(1,409)	(9,746)
At 31 December 2018 and 1 January 2019	4,232	21,280	4,949	6,118	17,603	54,182
Exchange realignment	–	1	4	1	4	10
Depreciation provided for the year	501	5,577	968	761	4,450	12,257
Eliminated on disposals	–	(7,446)	(538)	(826)	(1,984)	(10,794)
Transferred to investment properties *(Note 16)*	(89)	–	–	–	–	(89)
Impairment loss recognised for the year	–	80	240	6	315	641
At 31 December 2019	4,644	19,492	5,623	6,060	20,388	56,207
Carrying values						
At 31 December 2019	14,855	16,639	1,648	1,896	9,468	44,506
At 31 December 2018	15,948	17,875	2,641	2,332	11,656	50,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. PROPERTY, PLANT AND EQUIPMENT – *continued*

The Group's buildings are erected on land located in the PRC.

The above items of property, plant and equipment are depreciated using the straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

Buildings	5% or over the lease terms of the relevant land, if shorter
Leasehold improvements	5% or over the lease terms of the relevant properties, if shorter
Plant and machinery	11%–32%
Motor vehicles	10%–25%
Furniture, fixtures and equipment	8%–32%

As at 31 December 2019 and 2018, certain buildings with carrying values of approximately RMB11,748,000 (2018: RMB10,393,000) respectively were pledged to the bank for banking facilities granted to the Group (see Note 27).

During the year ended 31 December 2019, an impairment loss of RMB641,000 (2018: nil) was recognised in the profit or loss which was allocated to the CGU of the Group's retail outlet operation in Macau. Details of the impairment assessment are set out in Note 17.

14. LEASES

(i) Right-of-use assets

	31/12/2019	1/1/2019
	RMB'000	RMB'000
Other properties leased for own use	**72,868**	83,367
Ownership interests in leasehold land	**24,620**	26,300
	97,488	109,667

At 31 December 2019, right-of-use assets of RMB24,620,000 (1 January 2019: RMB26,300,000) represents land use rights locating in the PRC.

As at 31 December 2019, certain ownership interests in leasehold land with carrying values of approximately RMB19,555,000 (1 January 2019: RMB23,602,000) have been pledged to the bank for banking facilities granted to the Group (see Note 27).

The Group has lease arrangements for retail outlets, warehouses and office premises. The lease terms are generally ranged from thirteen months to nineteen years at fixed rentals. The Group has also entered into short-term leases arrangements in respect of retail outlets, warehouses and office premises. One of the properties leased contains variable lease payment terms that are linked to sales generated from the relevant leased retail outlet and with minimum lease payment terms. During the year ended 31 December 2019, no expenses related to variable lease payments of the lease were recognised into profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

14. LEASES – *continued*

(i) Right-of-use assets – *continued*

Additions to the right-of-use assets for the year ended 31 December 2019 amounted to RMB10,640,000, due to new leases of retail outlets, warehouse and office premises and renewal of existing leases.

During the year ended 31 December 2019, certain ownership interests in leasehold land with carrying values of RMB1,026,000 (2018: nil) have been transferred to investment properties as those interests are held for rental income upon signing of an operating lease agreement with a third party in 2019.

During the year ended 31 December 2019, an impairment loss of RMB481,000 (1 January 2019: nil) was recognised in the profit or loss which was allocated to the CGU of the Group's retail outlet operation in Macau. Details of the impairment assessment are set out in Note 17.

During the year ended 31 December 2019, the Group has subleased part of the rented retail outlets, details are set out in Note 33. The Group has classified the sublease as operating lease. During the year ended 31 December 2019, the Group recognised rental income from subleasing right-of-use assets of RMB23,164,000.

(ii) Lease liabilities

	31/12/2019	1/1/2019
	RMB'000	RMB'000
Non-current	**57,472**	64,559
Current	**17,675**	22,376
	75,147	86,935

	31/12/2019
	RMB'000
Within one year	**17,675**
After one year but within two years	**14,464**
After two years but within five years	**35,020**
After five years	**7,988**
	75,147
Less: amount due for settlement within 12 months (shown under current liabilities)	**(17,675)**
Amount due for settlement after 12 months	**57,472**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

14. LEASES – *continued*

(iii) Amounts recognised in profit or loss

	Year ended 2019 RMB'000
Depreciation of right-of-use assets by class of underlying asset:	
Other properties leased for own use	**20,658**
Ownership interests in leasehold land	**654**
	21,312
Interest expenses on lease liabilities	**4,202**
Expenses relating to short-term leases and other leases with remaining lease term ended on or before 31 December 2019	**16,115**

(iv) Others

During the year ended 31 December 2019, the total cash outflow for leases amount to RMB42,745,000.

15. PREPAID LAND LEASE

	2018 RMB'000
Balance as at 1 January	32,224
Amortisation	(1,058)
Balance as at 31 December	31,166
Balance as at 31 December	
Cost	39,915
Accumulated amortisation	(8,749)
Carrying values	31,166

Upon adoption of IFRS 16 on 1 January 2019, the carrying values of prepaid lease payments of RMB31,166,000 was reclassified to right-of-use assets and investment properties of RMB26,300,000 and RMB4,866,000 respectively.

As at 31 December 2018, certain prepaid land lease with carrying values of approximately RMB23,602,000 were pledged to the bank for banking facilities granted to the Group (see Note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

16. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Balance as at 1 January	**4,122**	4,245
Impact of adoption of IFRS 16	**4,866**	—
Balance as at 1 January (restated)	**8,988**	4,245
Transferred from ownership interests in leasehold land *(Note 14(i))*	**1,026**	—
Transferred from property, plant and equipment *(Note 13)*	**592**	—
Depreciation	**(601)**	(123)
Balance as at 31 December	**10,005**	4,122
Balance as at 31 December		
Cost	**11,695**	5,211
Accumulated depreciation	**(1,690)**	(1,089)
Carrying values	**10,005**	4,122

During the year ended 31 December 2019, certain owned properties with carrying values of approximately RMB1,618,000 (2018: nil) have been transferred to investment properties as these properties are held for rental income upon signing of an operating lease agreement with a third party in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

16. INVESTMENT PROPERTIES – *continued*

The above investment properties are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of term of the lease and 25 years

As at 31 December 2019 and 2018, certain investment properties with carrying values of approximately RMB9,731,000 and RMB4,046,000 respectively were pledged to the bank for banking facilities granted to the Group (see Note 27).

The fair values of the Group's investment properties at 31 December 2019 and 2018 were approximately RMB32,685,000 and RMB15,109,000 respectively, were valued by 北京中企華資產評估有限責任公司, an independent valuer not connected to the Group. Details of the valuation techniques and assumptions are discussed below. There has been a change in valuation technique used from direct comparison method to income approach since the change results in a measurement that is equally or more representative of fair value. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Fair value

The following table gives information about how the fair value of investment properties as at 31 December 2019 and 2018 was determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements were categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements was observable.

As at 31 December 2019

Nature	:	Investment properties in the PRC
Fair value hierarchy	:	Level 3
Valuation technique(s) and key input(s)	:	Income approach with key inputs which are market unit rent and market yield
Significant unobservable inputs	:	Market unit rent, using the direct market comparables and taking into account of location and other individual factors, of range from RMB1.8 sq. m. to RMB4.4 sq. m. per day. Market yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received of 6.5%

As at 31 December 2018

Nature	:	Investment properties in the PRC
Fair value hierarchy	:	Level 3
Valuation technique(s) and key input(s)	:	Direct comparison method based on market observable transactions of similar properties and adjusted to reflect the conditions and locations of the subject property.
Significant unobservable inputs	:	Price per square metre (RMB)

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FOR THE YEAR ENDED 31 DECEMBER 2019

17. GOODWILL

	2019	2018
	RMB'000	RMB'000
Balance as at 1 January	2,897	2,761
Exchange realignment	61	136
Impairment loss	(2,958)	–
Balance as at 31 December	–	2,897

Impairment testing on goodwill

The recoverable amount of the goodwill was determined based on the CGU of the Group's retail outlet network in Macau to which the goodwill belonged by the value in use basis. The calculation was based on the most recent five-year financial budgets approved by the management which represent the business cycle and strategy plan of Group's business segment. The cash flow beyond the five-year period was extrapolated using an estimated weighted average growth rate of 0% (2018: 0%). The following key assumptions had been made for the purpose of analysis:

1. Average net (loss) profit margin of (16)% (2018: 4%)

2. Average gross profit margin of 23% (2018: 23%)

3. Pre-tax discount rate of 13% (2018: 10%) per year

4. Average growth rate of 0% (2018: 0%)

During the year ended 31 December 2019, the Group's retail outlet network in Macau was affected by sharp increase in rental expense. As a result, the net profit margin of the CGU declined in the current year and the expected future cash flow has been revised and adjusted downwards based on the management's expectation for the retail outlet operation.

The growth rate was based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. The management determined the gross margin ratio mainly based on past performance of the CGU and the management's expectations for the market development. The discount rate used was pre-tax and reflected the specific risk associated with the CGU.

An impairment loss of RMB4,080,000 has been recognised for the CGU as the recoverable amount of the CGU was less than its carrying values. The impairment loss was allocated to reduce the carrying values of assets of the CGU in the following order:

(a) First, to reduce the carrying value of goodwill of RMB2,958,000; and

(b) Then, to reduce carrying value of the property, plant and equipment and the right-of-use assets of RMB641,000 (as disclosed in Note 13) and RMB481,000 (as disclosed in Note 14(i)) respectively on pro-rata basis on the carrying values of each assets in the CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

18. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	31/12/2019	1/1/2019	31/12/2018
	RMB'000	RMB'000	RMB'000
Non-current asset			
Rental deposits paid	**11,376**	9,293	9,293
Current assets			
Prepayments *(Note a)*	**308**	683	1,891
Advances to suppliers	**35,310**	41,409	41,409
Deposits paid	**1,256**	1,403	1,403
Input value added tax receivables *(Note b)*	**46,831**	48,364	48,364
Interest receivables	**638**	1,332	1,332
Other receivables	**23,937**	21,543	21,543
	108,280	114,734	115,942

Notes:

(a) Upon adoption of IFRS 16, the carrying amount of prepaid rental of RMB1,208,000 as at 31 December 2018 was reclassified to right-of-use assets.

(b) Input value added tax arose when the Group purchased products from suppliers and the input value added tax can be deducted from output value added tax on sales.

19. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Merchandise for resale	**130,848**	121,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

20. TRADE RECEIVABLES

All of the Group's sales are on cash basis except for the wholesale of goods, bulk sales of merchandise to corporate customers and rental income receivable from tenants. The average credit terms offered to these customers or tenants are generally for a period of 0–180 days from the invoice date. An aged analysis of the trade receivables at the end of the respective reporting periods, based on the invoice date, is as follows:

	2019	2018
	RMB'000	RMB'000
Within 30 days	**11,138**	12,711
31 to 60 days	**5,617**	3,521
61 to 180 days	**4,195**	5,020
181 to 365 days	**445**	372
Over 1 year	**2,192**	2,832
	23,587	24,456

The Group does not hold any collateral on the receivables.

As at 31 December 2019, the gross amount of trade receivables arising from contracts with customers amounted to RMB22,839,000 (2018: RMB23,790,000).

There are no customers who represent more than 5% of the total trade receivable balance as at the end of the reporting periods. The concentration of credit risk is limited due to the customer base being large and unrelated.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial positions adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operated and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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.

As at 31 December 2019 and 2018, the expected credit loss rates for trade receivables based on ageing of customers were very low, the identified impairment loss for trade receivable was immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVPTL include:

	2019 RMB'000	2018 RMB'000
Wealth management product	**20,000**	20,000

As at 31 December 2019, the Group invested in a wealth management product issued by a bank in the PRC with the principal amount of RMB20,000,000 (2018:RMB20,000,000). There are no fixed or determinable returns of the bank wealth management product and the return of principal is guaranteed.

22. DEPOSIT WITH A BANK/CASH AND CASH EQUIVALENTS

Deposit with a bank:

As at 31 December 2019, deposit with a bank of RMB25,243,000 (2018: RMB40,000,000) with maturity of more than three months carried interest at floating rate of 3-month London Interbank Borrowing Rate.

Cash and cash equivalents:

	2019 RMB'000	2018 RMB'000
Cash and equivalents are denominated in:		
HK$	**2,094**	34,624
RMB	**119,922**	86,273
MOP	**619**	826
	122,635	121,723

RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. Cash at banks earns interest at floating rates based on daily bank deposit rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

23. TRADE PAYABLES

The Group normally obtains credit terms of 0–360 days from its suppliers.

An aged analysis of the trade payables at the end of the respective reporting periods, based on the invoice date, is as follows:

	2019	2018
	RMB'000	RMB'000
Current to 30 days	**48,125**	46,352
31 to 60 days	**18,744**	20,302
61 to 180 days	**37,321**	35,570
181 to 365 days	**7,264**	6,242
Over 1 year	**4,798**	3,861
	116,252	112,327

24. DEPOSITS RECEIVED, RECEIPTS IN ADVANCE, ACCRUALS AND OTHER PAYABLES

	31/12/2019	1/1/2019	31/12/2018
	RMB'000	RMB'000	RMB'000
Rental deposits received and other refundable deposits received from suppliers	**9,863**	9,447	9,447
Rental income received in advance	**360**	288	288
Non-income tax payables	**1,420**	1,338	1,338
Accruals and other payables *(Note)*	**15,227**	17,054	21,830
	26,870	28,127	32,903

Note: Upon adoption of IFRS 16, the carrying amount of accrued lease liabilities of RMB4,776,000 as at 31 December 2018 was reclassified to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

25. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Advances received to deliver goods	12,332	9,760
Unredeemed balance of award credits	775	518
	13,107	10,278

The significant changes in contract liabilities in 2019 was mainly due to more sales orders received from bulk sales retailers and wholesalers near the end of the end reporting period.

Payments received in advance that are related to sales of goods not yet delivered to customers are deferred and recognised as contract liabilities. Revenue is recognised when goods are delivered to customers. The Group receives deposits on acceptance of orders on a case by case basis with customers before delivery commences.

Revenue recognised during the year ended 31 December 2019 that was included in the contract liabilities at the beginning of the year is RMB9,760,000 (2018: RMB17,111,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

26. AMOUNT DUE FROM RELATED COMPANIES

As at 31 December 2019 and 2018, the amounts due from related companies are trade-related, unsecured, interest-free and repayable within 3 months based on invoice date. All of the amounts at the end of the respective reporting periods, based on the invoice date, are within 30 days. The carrying amounts of the amounts due approximate to their fair values.

The amounts due from related parties are as follows:

Name of related party	Relationship	2019 RMB'000	2018 RMB'000
廣東海航樂萬家連鎖超市有限公司	A fellow subsidiary of a holding company	2,999	718
海南供銷大集酷舖商貿有限公司	A fellow subsidiary of a holding company	194	195
西安民生百貨管理有限公司	A fellow subsidiary of a holding company	2	–
		3,195	913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Secured bank borrowings	**108,000**	108,000
Less: Amounts classified as current liabilities	**–**	(108,000)
Amounts as non-current	**108,000**	–
Carrying amount repayable:*		
Within one year	**–**	108,000
More than one year but less than two years	**108,000**	–
	108,000	108,000

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2019 and 2018, the bank borrowings were dominated in RMB, bore interest at fixed rate of 5.46% (2018: 5.23%) per annum.

The Group's interest-bearing bank borrowings are secured by:

(i) the pledge of certain buildings of the Group with carrying values of approximately RMB11,748,000 and RMB10,393,000 as at 31 December 2019 and 2018 respectively (see Note 13);

(ii) the pledge of certain right-of-use assets of the Group with carrying values of approximately RMB19,555,000 as at 31 December 2019 (see Note 14);

(iii) the pledge of certain prepaid land lease of the Group with carrying values of approximately RMB23,602,000 as at 31 December 2018 (see Note 15); and

(iv) the pledge of certain investment properties of the Group with carrying values of approximately RMB9,731,000 and RMB4,046,000 as at 31 December 2019 and 2018 respectively (see Note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. SHARE CAPITAL

	2019		2018	
	Number of shares	**RMB'000**	Number of shares	RMB'000
Ordinary share of HK$0.01 each				
Authorised:				
At 1 January and 31 December	**2,000,000,000**	**15,826**	2,000,000,000	15,826
Issued and fully paid:				
At 1 January and 31 December	**290,457,000**	**2,387**	290,457,000	2,387

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2019 RMB'000**	2018 RMB'000
Non-current assets			
Investments in subsidiaries		**33,593**	32,858
Amounts due from subsidiaries	(a)	**116,575**	109,818
		150,168	142,676
Current assets			
Cash and cash equivalents		**27,333**	34,587
Current liability			
Other payables		**1,981**	1,118
Net current assets		**25,352**	33,469
Net assets		**175,520**	176,145
Capital and reserves			
Share capital		**2,387**	2,387
Reserves	(b)	**173,133**	173,758
Total equity		**175,520**	176,145

Notes:

(a) The amounts are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *continued*

Notes: – *continued*

(b) The movement of reserves is shown as follows:

	Share premium RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018	169,904	5,473	(7,094)	168,283
Loss for the year	–	–	(2,691)	(2,691)
Other comprehensive income for the year				
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	8,166	–	8,166
Total comprehensive income (expense) for the year	–	8,166	(2,691)	5,475
At 31 December 2018 and 1 January 2019	169,904	13,639	(9,785)	173,758
Loss for the year	–	–	(4,515)	(4,515)
Other comprehensive income for the year				
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	3,890	–	3,890
Total comprehensive income (expense) for the year	–	3,890	(4,515)	(625)
Balance at 31 December 2019	**169,904**	**17,529**	**(14,300)**	**173,133**

30. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	1 January 2019 RMB'000	**Financing cash flows RMB'000**	**Accrued interest RMB'000**	**Non-cash item — new leases recognised RMB'000**	**31 December 2019 RMB'000**
Liabilities					
Bank borrowings	**108,000**	**(5,882)**	**5,882**	**—**	**108,000**
Lease liabilities	**86,935**	**(26,630)**	**4,202**	**10,640**	**75,147**
	194,935	**(32,512)**	**10,084**	**10,640**	**183,147**

	1 January 2018 RMB'000	Financing cash flows RMB'000	Accrued interest RMB'000	31 December 2018 RMB'000
Liabilities				
Bank borrowings	92,000	11,165	4,835	108,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

31. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year:

Related party relationship	Nature of transaction		2019 RMB'000	2018 RMB'000
Related companies	Sales of goods	*(Notes a and d)*	**5,432**	3,221
	Purchase of goods	*(Notes b and e)*	**69**	1,441
	Rental expense paid	*(Notes c and e)*	**787**	62

(a) The consideration of sale transactions are based on (i) historical transaction prices and amount; (ii) prevailing market prices; and (iii) discount rate offered to bulk purchase customers. The credit period for sales to related parties is within 90 days.

(b) The consideration of purchase transactions are based on (i) historical transaction prices and amount; (ii) prevailing comparable wholesale prices; and (iii) discounts offered on bulk purchase. The credit period for purchases from related parties is within 90 days.

(c) In 2017, the Company entered into a two-year lease in respect of office premises with a fellow subsidiary of the Group's holding company. The amount of rent payable by the Company under the lease was HK$60,000 (equivalent to RMB53,160) per month. At 1 January 2019, the lease was accounted for as a short-term lease. During the year ended 31 December 2019, the Company has made lease payment of RMB319,000 to the fellow subsidiary of the Group's holding company.

During the year ended 31 December 2019, the Company entered into a one-year lease in respect of other office premises with a fellow subsidiary of the Group's holding company. The amount of rent payable by the Company under the lease was HK$88,000 (equivalent to RMB77,968) per month. The Group has made lease payment of RMB468,000 to the fellow subsidiary of the Group's holding company, where the lease is accounted for as a short-term lease.

(d) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the "Report of the Directors" section to the annual report.

(e) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however, they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

31. RELATED PARTY TRANSACTIONS – *continued*

(ii) Compensation of key management personnel of the Group, including directors' remuneration as disclosed in Note 9 to the consolidated financial statements, is as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,171**	2,088
Pension scheme contributions	**89**	55
	3,260	2,143

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2019, the Group has entered into new arrangements and renewed existing leases in respect of retail outlets, warehouses and office premises. Right-of-use assets and lease liabilities of RMB10,640,000 were recognised in 2019.

33. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

The Group leases certain of its office premises, retail outlets and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from 1 to 19 years. None of the lease includes contingent rentals.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31/12/2018
	RMB'000
Within one year	26,360
Later than one year and not later than five years	58,985
Later than five years	15,258
	100,603

The Group is the lessee in respect of a number of properties which the leases were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in Note 3, and the details regarding the Group's future lease payments are disclosed in Note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

33. OPERATING LEASE ARRANGEMENTS – *continued*

The Group as a lessor

The Group sub-leases certain areas inside their retail outlets and leases out its investment properties. The leases are negotiated for terms ranging from 1 to 10 years. None of the lease includes contingent rentals.

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

	31/12/2019
	RMB'000
Within one year	**20,059**

As at 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments:

	31/12/2018
	RMB'000
Within one year	19,558

34. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

(a) The PRC

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

(b) Hong Kong

The Group also maintains the MPF Scheme for all qualifying employees in Hong Kong in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, of which the contribution was matched by employees and subject to a cap of HK$1,500 per employee.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

The total expense recognised in profit or loss of approximately RMB7,444,000 (2018: RMB7,489,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

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35. SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") adopted by the Company was approved by the shareholders on 19 August 2015.

A summary of the Share Option Scheme is set out below:

The Share Option Scheme became effective for a period of 10 years commencing on 19 August 2015. Under the Share Option Scheme, the directors of the Company shall, in its absolute discretion select and make an offer to any eligible participants to subscribe for share of the Company at a subscription price being not less than the highest of (i) the official closing price of shares as stated in the Stock Exchange's daily quotation sheets on the date grant; (ii) the average of the official closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The period during which an option may be exercised will be determined by the board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares immediately following the completion of global offering (excluding the shares issued upon the partial exercise of the over-allotment option relating to the global offering), being 29,045,700 shares.

No share options were granted under the Share Option Scheme during both years. As at 31 December 2019 and 2018, there were no outstanding options granted under the Share Option Scheme.

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FOR THE YEAR ENDED 31 DECEMBER 2019

36. INVESTMENTS IN SUBSIDIARIES

Details of the principal subsidiaries are as follow:

Company name	Place of incorporation/ establishment	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company Indirect %	Principal activities
Subsidiaries				
Macau Son Hak Long International Sociedade Unipessoal Limitada	Macau	MOP38,625,000	100	Operation and management of retail stores in Macau
Usmart Chain Supermarket Company Limited	Macau	MOP38,657,000	100	Operation and management of retail stores in Macau
佛山市順德區昌萬隆複合材料有限公司*	The PRC	Paid up capital of HK$85,500,000	100	Wholesale of goods in the PRC
佛山市順客隆商業有限公司#	The PRC	Paid up capital of RMB50,000,000	100	Operation and management of retail stores and wholesale in the PRC
珠海市順客隆商業有限公司#	The PRC	Paid up capital of RMB1,000,000	100	Operation and management of retail stores in the PRC
肇慶順客隆商業連鎖有限公司#	The PRC	Paid up capital of RMB10,000,000	100	Operation and management of retail stores in the PRC
廣州市順客隆超市有限公司#	The PRC	Paid up capital of RMB1,000,000	70	Operation and management of retail stores in the PRC
佛山市順德區譽邦行貿易有限公司#	The PRC	Paid up capital of RMB500,000	100	Wholesale of goods in the PRC
肇慶市高要區樂通貿易有限公司#	The PRC	Paid up capital of RMB1,000,000	100	Wholesale of goods in the PRC
佛山市順德區名建貿易有限公司#	The PRC	Paid up capital of RMB6,000,000	100	Operation and management of retail stores in the PRC
佛山市順德區澳中貿易有限公司#	The PRC	Paid up capital of HK$1,000,000	100	Operation and management of retail stores in the PRC

* registered as wholly-foreign owned enterprises under the PRC law

\# registered as a limited liability company under the PRC law

None of the subsidiaries had any debt securities outstanding at the end of both reporting periods or at any time during both years.

No subsidiary has non-controlling interest material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

37. CAPITAL RISK MANAGEMENT

The capital structure of the Group consists of debts, which include the bank borrowings disclosed in Note 27 and equity attributable to owners of the Company, comprising share capital as disclosed in Note 28 and reserves as disclosed in the consolidated statement of changes in equity. The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

	2019 **RMB'000**	2018 RMB'000
Debt	**108,000**	108,000
Equity	**256,322**	276,172
Debt to equity ratio	**42%**	39%

38. FINANCIAL INSTRUMENTS BY CATEGORY

Categories of financial instruments

	2019 **RMB'000**	2018 RMB'000
Financial assets		
Financial assets at FVTPL	**20,000**	20,000
At amortised cost (including bank balances and cash)	**211,867**	220,663
Financial liabilities		
At amortised cost	**249,342**	246,828

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, deposits paid and other receivables, deposit with a bank cash and cash equivalents, amounts with related companies, trade payables, deposits received, accruals and other payables and bank borrowings.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (currency risk and interest rate risk). As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Credit risk

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from trade and other receivables, amounts due from related parties and cash and cash equivalents. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has assigned responsible staff to determine credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade receivables and trade-related amounts due from related companies, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance for impairment at lifetime ECL. The Group determines the ECL on these items collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Management considered that the risk of default in respect of rental deposits paid and other deposits paid and other receivables is low and thus the allowance for impairment recognised during both years was limited to 12-month ECL. As at 31 December 2019 and 2018, the identified impairment loss was immaterial.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors in the Group and changes in the operating results of the debtors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Credit risk – *continued*

The Group's exposure to credit risk

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The table below details the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

	Notes	Internal credit rating	12-month or lifetime ECL	31/12/2019 Gross carrying amount RMB'000	31/12/2019 Loss allowance RMB'000	31/12/2019 Net carrying amount RMB'000	31/12/2018 Gross carrying amount RMB'000	31/12/2018 Loss allowance RMB'000	31/12/2018 Net carrying amount RMB'000
Trade receivables	20	Note	Lifetime ECL (simplified approach)	23,587	–	23,587	24,456	–	24,456
Rental deposits and other deposits paid	18	Performing	12-month ECL	12,632	–	12,632	10,696	–	10,696
Other receivables	18	Performing	12-month ECL	24,575	–	24,575	22,875	–	22,875
Amounts due from related companies	26	Note	Lifetime ECL (simplified approach)	3,195	–	3,195	913	–	913
Deposit with a bank	22	Performing	12-month ECL	25,243	–	25,243	40,000	–	40,000
Cash and cash equivalents	22	Performing	12-month ECL	122,635	–	122,635	121,723	–	121,723
				211,867	–	211,867	220,663	–	220,663

Note: The Group has applied simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Credit risk – *continued*

The Group's exposure to credit risk – *continued*

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 99% (2018: 98%) of the total trade receivable as at 31 December 2019.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations and also in respect of its cash flow management.

The Group's policy is to maintain sufficient cash and bank balances and has available funding to meet its working capital requirements. The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

The following tables details the Group's remaining contractual maturities for its non-derivative financial liabilities at the end of the reporting period. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables below include both interest and principal cash flows.

	Due on demand or within one year RMB'000	2–5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2019					
Trade payables	116,252	–	–	116,252	116,252
Deposits received, accruals and other payables	25,090	–	–	25,090	25,090
Lease liabilities	26,222	56,610	8,510	91,342	75,147
Bank borrowings	5,868	109,616	–	115,484	108,000
	173,432	166,226	8,510	348,168	324,489

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FOR THE YEAR ENDED 31 DECEMBER 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Liquidity risk – *continued*

	Total contractual undiscounted cash flows due on demand or within one year	**Carrying amount**
	RMB'000	RMB'000
31 December 2018		
Trade payables	112,327	112,327
Deposits received, accruals and other payables	26,501	26,501
Bank borrowings	108,000	108,000
	246,828	246,828

Market risk

Currency risk

Certain bank balances are denominated in currencies other than the functional currencies of the entities to which they relate. The Group currently does not have a foreign currency hedging policy. Management monitors foreign exchange exposure and will consider hedging foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currencies denominated monetary assets at the end of the reporting period are as follows.

	2019	2018
	RMB'000	RMB'000
HK$	**689**	309
RMB	**1,262**	1,912
	1,951	2,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Market risk – *continued*

Sensitivity analysis

The Group is mainly exposed to the currency of HK$ and RMB.

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective entity's functional currency. 5% (2018: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of reporting period for a 5% (2018: 5%) change in foreign currency rates. A positive number below indicates a decrease/an increase in post-tax loss/profit where the respective functional currencies of the reporting entity weaken 5% (2018: 5%) against the relevant foreign currencies. For a 5% (2018: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss/profit, and the balances below would be negative.

	HK$		RMB	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**30**	14	**53**	80

Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate interest bearing receivables, including deposit with a bank and bank balances.

The Group's fair value interest rate risk relates primarily to its fixed-rate bank balance and bank borrowings.

The Group currently does not have an interest rate hedging policy in relation to fair value interest rate risk and cash flow interest rate risk. However, management of the Group monitors interest rate exposure on an on-going basis and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Interest rate risk – *continued*

Sensitivity analysis

It is estimated that a general increase or decrease of 5 basis point in 2019 in interest rates for floating rate assets, with all other variables held constant, would decrease or increase the Group's loss for the year by approximately RMB45,000 (2018: increase or decrease the Group's profit for the year by RMB49,000) for the year ended 31 December 2019.

There is no impact on other components of equity.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the reporting date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 5 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for the years ended 31 December 2019 and 2018.

Fair value

The financial assets stated at FVTPL are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of the financial assets stated at FVTPL is determined (in particular, the valuation techniques and inputs used).

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs	Significant unobservable inputs	Range	Relationship of key inputs and significant unobservable inputs to fair value
		2019 **RMB'000**	2018 RMB'000				
Wealth management product	Level 2	**20,000**	20,000	Present value quoted by the relevant bank	N/A	N/A	N/A

During the year, there were no transfers between levels of fair value hierarchy.

The directors of the Company consider that the carrying amounts of other current financial assets and financial liabilities recorded at amortised cost using the effective interest rate method in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

40. EVENT AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of the 2019 Novel Coronavirus ("COVID-19") in the PRC and the subsequent quarantine measures imposed by the PRC government have had a negative impact on the PRC's economic, causing uncertainties and challenges of all kinds in the retail industry.

In the face of COVID-19, the Group has strengthened its infection prevention and supervision measures and complied with the government's direction on stablising prices and ensuring supply.

Based on the currently available information, the directors of the Company consider that the COVID-19 outbreak has not been had any material impact on the financial position of the Group. However, given the inherent unpredictable nature and development of COVID-19, the Group's business might be affected and the directors of the Company will closely monitor the overall situation and development of events in the regard.