ZALL 卓尔智联

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

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

Annual Report 2019

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ABOUT

ZALL SMART COMMERCE GROUP LTD.

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

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yan Zhi *(Co-Chairman and Co-Chief Executive Officer)*
Dr. Gang Yu *(Co-Chairman)*
Mr. Wei Zhe, David
Mr. Qi Zhiping *(Co-Chief Executive Officer)*
Mr. Cui Jinfeng
Ms. Min Xueqin *(appointed on 16 April 2019)*

Independent Non-Executive Directors

Mr. Cheung Ka Fai
Mr. Wu Ying
Mr. Zhu Zhengfu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

No. 1 Enterprise Community
1 Chutian Avenue
Panlongcheng Economics and Technology Development Zone
Wuhan, Hubei Province
China 430000

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2101, 21/F
Two Exchange Square
Central
Hong Kong

AUDIT COMMITTEE

Mr. Cheung Ka Fai *(Chairman)*
Mr. Wu Ying
Mr. Zhu Zhengfu

NOMINATION COMMITTEE

Mr. Wu Ying *(Chairman)*
Mr. Yan Zhi
Mr. Cheung Ka Fai

REMUNERATION COMMITTEE

Mr. Zhu Zhengfu *(Chairman)*
Mr. Qi Zhiping
Mr. Wu Ying

RISK MANAGEMENT COMMITTEE

Mr. Zhu Zhengfu *(Chairman)*
Mr. Cui Jinfeng
Mr. Cheung Ka Fai

COMPANY SECRETARY

Ms. Foo Man Yee, Carina

COMPANY WEBSITE

http://www.zallcn.com/

AUTHORIZED REPRESENTATIVES

Mr. Cui Jinfeng
Ms. Foo Man Yee, Carina

HONG KONG SHARE REGISTRAR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110 Cayman Islands

LEGAL ADVISOR

P.C. Woo & Co.
Sidley Austin

AUDITORS

KPMG
Public Interest Entity Auditor
registered in accordance with
the Financial Reporting Council Ordinance

PRINCIPAL BANKERS

China Construction Bank
China Mingsheng Banking Corp., Ltd.
Industrial and Commercial Bank of China
China CITIC Bank

FINANCIAL HIGHLIGHTS

	2019 RMB'000	2018 RMB'000
Revenue	**72,898,756**	56,116,072
Gross profit	**1,224,911**	1,559,600
Gross profit margin	**1.7%**	2.8%
Profit for the year	**57,519**	1,273,907
Earnings per share – Basic (RMB cents)	**0.79**	11.76
– Diluted (RMB cents)	**0.79**	11.75
Total non-current assets	**32,286,754**	28,820,778
Total current assets	**29,158,306**	24,260,340
Non-current assets held for sale	**44,179**	–
Total assets	**61,489,239**	53,081,118
Total non-current liabilities	**10,259,262**	9,817,742
Total current liabilities	**31,607,503**	23,654,563
Total liabilities	**41,866,765**	33,472,305
Net assets	**19,622,474**	19,608,813

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Zall Smart Commerce Group Ltd. ("Zall", "Zall Smart Commerce" or "the Company"), I am pleased to present the annual report of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2019.

Looking back in 2019, trading environment was changing drastically amid much higher uncertainties. At the beginning of 2020, the novel coronavirus (COVID-19) was spreading across the world. Facing complicated external environment, Zall Smart Commerce adhered to its business philosophy of "Connecting global business intelligently, and creating value for clients", continuously contributed to the prosperity of the offline market, further developed in the sector of industrial internet, focused on establishing an international B2B trading platform matrix whilst actively participated in the market of global supply chain and established its global intelligent trading platform. In the meantime, we supported the measures in containing COVID-19, demonstrating that we are an enterprise in the global supply chain with social and international responsibilities.

I. ACTIVELY CONTAINING COVID-19 IN DOMESTIC AND OVERSEAS SUPPLY AND SERVICE CHAINS

Since the outbreak of COVID-19, global economy has become more complicated and uncertain, and the whole world was affected. The Group has been deeply concerned about the outbreak and actively participated in the containment. Leveraging on its resources in cross-border supply chains as well as its seamless connections of domestic and overseas purchasing, global logistics, customs clearance and distributions, Zall has effectively organized more than 10 aeroplanes to assist the Zall Foundation in purchasing more than 6 million items for emergency medical usage in Wuhan, Hubei, thereby eased their shortage of medical supplies. In particular, the whole process from global purchasing to arrival in Wuhan was completed in 48 hours, and the first aeroplane of Zall has become the earliest chartered cargo plane in the world to arrive Wuhan for the rescue. This has fully reflected the capability of Zall in organizing global supply chains and logistics services developed from engaging in global trading platform over the last 3 to 4 years.

CHAIRMAN'S STATEMENT

Leveraging the advantages on different platforms of related industries, companies in the Group provided various charitable services in supporting the containment of COVID-19. In its global purchasing and distribution of supplies, platforms of Zall including Commodities Intelligence Centre Pte Ltd. ("CIC") and Shenzhen Sinoagri E-commerce Co., Ltd.* (深圳市中農網有限公司) ("Shenzhen Sinoagri") actively participated in the global and domestic logistics process, assisting in the earliest arrival of supplies in Wuhan. With advantages in external trade services, North Hankou International Trade Center (漢口北國際商品交易中心) ("North Hankou") provided free consultation and support services on domestic and global logistics, customs declaration and clearance for the various kinds of emergency medical supplies to arrive in Wuhan. It provided assistance to various charitable organizations and individuals for a total of 232 batches of overseas goods to be delivered to Wuhan. The cold chain vehicles of Xiaoxue Cold Chain (Wuhan) Logistics Co., Ltd* (小雪冷鏈(武漢)物流有限公司) ("Xiaoxue Cold Chain") were put on 24-hour standby to provide safe and efficient express food delivery services for more than 160 shops and supermarkets. A total of more than 300,000 items of frozen food were delivered.

Leveraging on its sources in the offline market, channel resources and supply chain integration, North Hankou motivated the merchants in the market to pool and supply various kinds of emergency supplies, thereby supported and protected the construction and operation of the 3 mobile cabin hospitals (Jianghan (Zall Wuzhan), Wuhan Salon and North Hankou).

As the conditions of the outbreak in China are improving, the Group is currently devoting its every effort on its business development while actively containing the virus. Its online industrial internet business has been developing steadily since the outbreak of the virus. The Group's offline flagship project – North Hankou International Trade Center has resumed operations recently. It was the first major business and trading market to resume operation in Wuhan and has attracted attention across the community.

CHAIRMAN'S STATEMENT

II. DEVELOPING INTERNATIONAL INTELLIGENT TRADING PLATFORM WITH AN AIM TO LOOK FOR OPPORTUNITIES IN CRISIS

With COVID-19 spreading across the world, we believe global supply chain will be significantly hit and the risk of fluctuation in prices will further increase. However, there are opportunities in crisis, just as the drastic changes that boosted e-commerce and changed the lifestyle of people amid "SARS" in 2003. The outbreak this time is very likely to result in explosive development to industrial internet and changes in the ways of trading and supply chain organization of companies. The "New Mode of Trading" that we advocate will be massively popularized.

The virus has forced people to adopt more contactless trading methods, and therefore more traditional companies will have a stronger focus on internet and information technologies. They will actively apply these technologies in developing their businesses, purchase and sell on internet platform and widely use tools of information technology to improve their operating efficiency. Digital infrastructure such as artificial intelligence, big data management, industry 4.0 and blockchain will further improve the ability of businesses to survive online. Industry digitization is reshaping underlying value and supply chains across the world have been accelerating online development.

Under such environment, Zall is at the right timing to further the application of intelligence technology in its business in the global supply chain market. As its core business, the Group has already established solid foundation for its industrial internet business. Leveraging on its offline market trading, logistics and properties and after continuing exploration in the industrial internet sector for more than 4 years, the Group has considerably improved the industry influence, trading size and platform value of the B2B platforms it developed and operated for consumer goods, agricultural products, chemicals, plastics, steel, non-ferrous metals and seafood. The services provided based on the trading environment and transaction data such as finance, logistics, cross-border trading and supply chain management have gradually established a sound supply chain management system. Zall Smart Commerce has accumulated hundreds of thousands of customers in its ecosphere. By integrating the features of different products and optimizing resources, it has expanded up – and downstream, deeply explored and enriched its vertical offerings for the continuous increase its influence and control over the industry chains.

In recent years, Zall Smart Commerce has been actively developing intelligent trading platform of a new generation and has gained satisfactory results. Through actively applying new technologies including blockchain, Internet of Things (IoT), big data and artificial intelligence and promoting the exchange of information, goods and capital on its platforms, Zall Smart Commerce has fully connected the sections of data, supply and demand matching, logistics, warehousing, finance and supply chain management in its ecosphere. It has utilized new technologies to empower the development of industrial internet, with an aim to accomplish visualization, application of intelligence technology and digitization on trading. In 2019, "Zall Chain Alliance" (卓鏈聯盟) and "Z-Baas" became the first batch of registered domestic products of blockchain information services. Supervision of goods by the application of intelligence technology through cloud warehouse was accomplished. Real-time analysis and estimation of trading volume and prices were conducted through the images of customers. The improvement on management efficiency and risk control through the upgrade and reconstruction of the IoT facilitated the connection between digitized assets and financial support, accomplished multi-environment transfer of goods and developed technology and capability on full-environment driving.

III. PROGRESSING SOLIDLY TO SUPPORT INDUSTRY DEVELOPMENT AND DEMONSTRATE PLATFORM VALUE

The environment after the outbreak of COVID-19 will further testify the real value of a company, platform or organization. Zall Smart Commerce will be more sensible and practical in providing valuable trading services to its platform customers and facilitating the transformation and development of industries. Amid the outbreak, production activities cooled down drastically and supply chains was once halted due to disruption in the traffic of personnel and goods. Through various platforms of industrial internet, Zall Smart Commerce has to be more effective in matching and connecting supply and demand, helping industries to resume working and production and doing its best to complement the dampened supply and insufficient demand.

Enhancing and re-discovering value of properties for physical markets. No matter how the COVID-19 and environment change, wholesale functions including trading and settlement, logistics and distribution are the basic functions in protecting normal economic operation and the basic living conditions of people. After developing for almost 10 years, North Hankou International Trade Center has become the comprehensive standard market in Central China and even the whole country.

CHAIRMAN'S STATEMENT

Comparing to the traditional markets, North Hankou has a more comprehensive traffic network and better warehousing and logistics facilities. Its market planning, hardware and facilities and overall environment even demonstrated scientific, rational and advanced features amid the outbreak of COVID-19. Before that, its popularity and commercial sentiment was increasing. With the enriching and improving new markets, new development and market size, North Hankou would step up its connections with e-commerce live broadcast and industrial internet platforms for developing its sales channels. As the old markets in city center are relocating, North Hankou will further develop the wholesale environment in Wuhan, boost the pace of its own trading and form a synergy of markets. In the meantime, projects of the Group in Tianjin, Jingzhou and Changsha were steadily developing. In particular, the e-commerce mall project (Phase I) in Changsha were mainly occupied by companies. It has become a model of intelligent manufacturing zone in Changsha and was recognized by the local government.

Boosting capability of industry chains in integrated purchase, thereby cutting costs and increasing efficiency for customers and further enhancing platform value. Amid the outbreak of COVID-19, the capability of Zall Smart Commerce in purchasing and pooling emergency medical supplies was widely recognized. The platforms of Zall Smart Commerce will further develop better capabilities in supply chain integration as well as worldwide and countrywide supply chain collection, thereby forming reputation of "buying quality goods at Zall", "buying nice goods at Zall", "quick delivery by Zall", "low cost at Zall", and demonstrating the general advantages of "plenty, efficiency, satisfaction and saving" of Zall's supply chains – comprehensive offerings, good quality, efficient logistics, and low costs. Opening up global and domestic supply chains for solid development of global business. After the outbreak of COVID-19, the opening up of global and domestic supply chains and the establishment of sector and industry supply chains will be under spotlight. In its purchasing for the containment of virus, the supply chains of Zall have demonstrated good value, which further underpinned Zall's confidence in further developing supply chains. It will leverage this opportunity to strengthen its global business, particularly focusing on CIC and ZMA Smart Capital Pte. Ltd.

The Group will further improve its capabilities in the services on data, finance, logistics and cross-border trading. It will make use of its unique value in responding to COVID-19, resuming normal trading, logistics and economic operation. Digitization is the foundation of Zall Smart Commerce and also its basic service capability. We will continue the application of new technologies with blockchain as the core. Through the basic restructuring with the application of information technology, we will open up each vertical field for data collection, processing, transmission, analysis, and connect every section, thereby forming connected trading environment and wholly digitized supply chain for service sections, and applying intelligence technology in trading and services. We will collaborate with professional financial institutions such as Wuhan Zhongbang Bank Co., Ltd.* (武漢眾邦銀行股份有限公司) ("Wuhan Z-Bank") in providing more quality financial products for supply chains. We will also make use of financial technology to establish efficient financing channels for small and medium enterprises which have difficulties in financing and weak credibility. We will rely on Zallfuhui Information Technology (Wuhan) Co., Ltd* (卓服滙信息科技(武漢)有限公司) ("Zall Cloud Warehouse") (卓爾雲倉) to further strengthen our capability in integrated warehousing and delivery services and improve the logistics and delivery capability of Zallsoon Information Technology (Wuhan) Co., Ltd (卓集送信息科技(武漢)有限公司) ("Zallsoon") (卓集送), thereby covering the major cities across the country and developing an intelligent warehouse service platform with considerable influence. North Hankou will deliver satisfactory performance in its general cross-border trading services. It will unblock the channels for inward and outward customs clearance as well as global logistics, and also do its best in countering the damage and impact of COVID-19 on imports and exports. LightInTheBox Holding Co., Ltd. ("LightInTheBox") will continue its devotion in cross-border e-commerce. It will improve its product offerings and provide timely emergency medical supplies to countries that are its major markets, with an aim to increase its influence in the global emerging markets.

Although the outbreak of COVID-19 will temporarily disrupt the operation of Zall Smart Commerce, its general development objectives will not be affected. The Group will continue its contribution to the prosperity of the offline market, persist in developing and operating B2B trading platforms and innovate its supply chain services, with an aim to establish an efficient and low-cost global intelligent trading system. The Group will also dispel and relieve the disruption and blow on supply chains caused by COVID-19 amid difficulties and frustration. It will bravely move forward and develop to welcome the beginning of the new trade era.

Yan Zhi
Co-chairman
Hong Kong, 29 April 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Consumer product-focused wholesale

The Group's core project, the North Hankou International Trade Center (漢口北國際商品交易中心) has now formed more than 30 large specialized market clusters covering footwear and leatherware, branded clothing, hotel supplies, small merchandises, bedding, automobile and second-handed vehicles, hardware and electrical products, etc., with merchants reaching 32,000 operating stably. The total developed and developing area of market clusters exceeded 6.8 million square meters. The annual transaction amount achieved in 2019 was approximately RMB89.9 billion. During the year, it was honoured as "National Trading Market System-Demonstration Market on Transformation, Upgrade, Innovation and Development for 2018" (全國商品交易市場系統 — 二零一八年度轉型升級創新發展示範市場) and "The Most Influential Brand Market in China over the Past 40 Years of Reform and Opening-Up" (改革開放四十年全國最具影響力品牌市場). We also, as the market representative, shared the experience of transformation and upgrading in the National Key Market Training of the Ministry of Commerce (國家商務部全國重點市場培訓).

In 2019, nearly 200,000 square meters were rented in the North Hankou International Trade Center throughout the year. Various new markets and businesses, including Central China Labour Insurance City (華中勞保城), City of Tail Product (尾貨城) and City of Flower, Bird, Fish and Pets etc., were opened in the North Hankou International Trade Center which further enhanced the scale of specialized markets in North Hankou. The Group has organized various large-scale marketing activities such as order fairs, internal purchase fairs, procurement days, exhibition fairs, exchange salons, etc. for a total of 41 times in 2019. Such events included the 10th Hankoubei Commodities Fair (漢交會) with the theme "Building a Dream for the Global and the Intelligent for Connecting the Future (築夢全球、智通未來)", the 2nd China Central Import Commodity Expo (中國中部進口商品博覽會), the 5th Hotel Supplies Expo (酒店用品博覽會), the 1st Central China Labour Insurance City Expo (華中勞保城博覽會) and the New Year's Products Street (年貨大街), all of which attracted over 200,000 citizens to visit and purchase during the event period. The Group has built a live broadcast industrial base for North Hankou E-commerce, built a top 30 industrial e-commerce live broadcast industrial park, cooperated with a number of e-commerce live broadcast platforms, and attracted dozens of MCN institutions to move in. North Hankou Business College (漢口北商學院), which offers specific training courses on broadcast, was established to help merchants in the market to quickly reform their supply and marketing model. Through various exhibition activities and innovate marketing model, popularity and prosperity of the markets were greatly promoted and a large number of merchants have been attracted.

In 2019, the Group has continued to strengthen the national market procurement and trade pilot program and the priority support for the construction of key industrial parks in the Wuhan cross-border e-commerce comprehensive trial zone, comprehensively deepen the development of new foreign trade business, and become the only export industrial park in China that integrates market procurement, cross-border e-commerce and general trade clearance. The Group has conducted reconstruction and provided customs supervision workplaces to achieve direct customs clearance within the export commodity market. The ambient experience street zone of Wanguo City (萬國城) with a total gross floor area of approximately 140,000 square metres, which is mainly used to showcase, purchase and sell import and export commodities of various countries and invite investment and operation. We completed the first cross-border e-commerce export 9610 model (cross-border trade e-commerce) customs clearance, and established a cross-border e-commerce experience center, which is a breakthrough in cross-border e-commerce. Up to now, the North Hankou Market has introduced more than 60 international logistics service providers, cooperated to establish 11 bulk export international logistics lines and more than 140 small package export logistics lines, and built on its own and jointly built 99 overseas warehouses.

Tianjin E-commerce Mall is the Group's flagship project in Northern China. Portions of the commercial, trade and e-commerce zones of Phase I have gradually commenced operation. Against a background of cooperative development in the Beijing-Tianjin-Hebei region and the easing of Beijing's non-capital core function, Tianjin E-commerce Mall continuously approached Beijing Tianya Apparel Market (北京天雅服裝市場), New Century (新世紀) and other major customers. At the same time, Tianjin E-commerce Mall actively adjusted its business model to set a foothold on the local market of Tianjin, deeply explored areas such as flower, bird and fish, antiques and home decoration and building materials, and added areas of more than 70,000 square meters for business solicitation and more than 300 merchants. Tianjin E-commerce Mall Project Phase II, Zall World City (卓爾世界城), is also actively pursuing the design and optimization of the project.

MANAGEMENT DISCUSSION AND ANALYSIS

Supply chain management and trading

The Group has acquired and established various companies in the industrial internet sector focusing on the construction and operation of intelligent trading and service platforms. The Group has established B2B trading platform matrix for agricultural products, chemicals and plastic raw materials, black metals, non-ferrous metals and energy, etc.

In 2019, the development of industrial internet is changing rapidly amid the economic downturn, and the B2B field of agricultural products is also facing downward pressure due to the impact of macro economy. Shenzhen Sinoagri, a large-scale B2B platform for agricultural products of the Group, strived to identify new demands and opportunities for growth in the course of change, and focused on the full acceleration of service model innovation, product categories and layout of new channels and the process of digitization. Shenzhen Sinoagri consistently made breakthrough in terms of industry chain, industrial level and ecology of industry. On the basis of the existing products such as sugar and cocoon silk, Shenzhen Sinoagri has expanded to various bulk agricultural products such as edible oil, grain and timber and their sub-segments, and rapidly expanded its customer base by leveraging its resource advantages. Shenzhen Sinoagri cooperated with Marubeni Corporation in Japan to establish an e-commerce platform for coffee related products, so as to gradually realize the strategic layout of Shenzhen Sinoagri in the coffee industry chain. In order to continuously build the infrastructure for value chain of bulk agricultural products, Shenzhen Sinoagri initially established a technology system to share with ERP, warehousing and logistics, big data, CA certification and third-party financial institutions. In 2019, Shenzhen Sinoagri completed the continuous iteration of the big data platform V2.0 and the blockchain platform, and the full operation of the Mutian ERP and trading system enabled the online business to be fully implemented, realizing one-stop self-service processing for all businesses including transaction settlement, financing settlement, fund payment and electronic contracts. At the same time, under the strategic layout of Shenzhen Sinoagri's agricultural industrial ecosphere, the Company will build financial technology to enhance the underlying service capacity, reduce the transaction costs of the industry and improve the efficiency of financial services by constructing financial online platform. The financial services further extended to the upstream to deepen the agriculture-related business, helped farmers, cooperatives and processing enterprises to build stable trading relationships with financial instruments, and assisted in the in-depth development of order agriculture with its own strength. For the year ended 31 December 2019, the platform had 34,254 new customers, with 113,155 accumulated registered users and realised operating revenue of approximately RMB33.94 billion. In 2019, the Company won a number of honours and awards, including No. 483 among the Top 500 Enterprises in China (中國企業500強), No. 10 among the Top 100 Industrial Internet Platforms in China (中國產業互聯網平台百強榜) and No. 36 among the Top 500 Enterprises in Shenzhen (深圳500強企業).

As a chemical e-commerce operator that leads the future, HSH International Inc. ("HSH") is committed to promote the infrastructure construction of the "Internet + chemicals and plastic raw materials", opening up the closed loop of transaction of information flow, logistics and capital flow in the entire industrial chain for chemicals and plastic raw materials. It aims to construct HSH as a new ecosystem for the entire industrial chain of chemical and plastic raw material industry through an innovative mode of distributed sharing platform. In 2019, HSH adjusted its strategic planning, further expanded its platform business, shifted from self-operated to self-operated + platform business and provided consignment and pre-sale business according to the requirements of upstream resources and downstream customers. It took key commodities as a breakthrough point to develop business and generate revenue. At the same time, the Group promoted the import business of HSH, recruited talents, expanded the channels for supply of goods and increased the channels for making profits. For the year ended 31 December 2019, the number of customers of the HSH platform reached 41,703, and the annual operating revenue was approximately RMB8.89 billion.

Shanghai Zall Steel E-commerce Co., Ltd (上海卓網鏈電子商務有限公司) ("Zall Steel") mainly builds integrated service platform for intelligent trading and supply chain services for upstream, midstream and downstream supply chain partners of steel industry chain in the bulk black commodity sector. Since its establishment on 23 March 2018, Zall Steel has established business partnerships with approximately 12,000 upstream and downstream customers. For the year ended 31 December 2019, Zall Steel realized operating revenue of approximately RMB20.9 billion. Zall Steel will continue to promote offline and online service integration, focus on three core platform products and enhance the comprehensive online integrated service capabilities of the platform with six service platforms, namely "intelligent trading, supply chain finance, warehousing and logistics, intelligent logistics, Zall Steel Cloud SAAS service and data information". In 2019, Zall Steel won a number of awards, including "China's Top 100 B2B Enterprises (中國B2B百強企業)", "E-commerce Supply Chain B2B Trading Model Innovation Enterprise (電商供應鏈B2B交易模式創新企業)" and "China Metal Material Distribution Association AAA Credit Enterprise (中國金屬材料流通協會AAA級信用企業)", and was recognized as the second batch of "Shanghai Municipal Private Enterprise Headquarters (上海市民營企業總部)" enterprise.

MANAGEMENT DISCUSSION AND ANALYSIS

CIC of the Group provides integrated services covering transaction matching, custom clearing and declaration, supply chain logistics, trade financing, supply chain finance and global compliance regulation, as well as provides trade data and trade index services, realizing intelligentization of the whole process of bulk commodity trading. For the year ended 31 December 2019, the CIC trading platform recorded accumulative transaction amount of over USD10.37 billion and over 4,600 registered users, which completed our business layout in China, Singapore, Australia, India, Malaysia and various countries in Asia, focusing on transactions of non-ferrous metals, energy and other products. In order to guarantee the smooth operation of finance services for supply chain, CIC and Marubeni Corporation in Japan, one of the Global 500 enterprises, jointly established the ZMA Smart Capital Pte. Ltd. ("ZMA"). Taking advantage of the capital and opportunities in the international market and Singapore government's support for the finance industry of bulk trading supply chain, ZMA continuously enhanced its electronic financial services and provided effective risk management by relying on CIC's blockchain technology, providing new solutions for international electronic financial services, continuously reducing costs, expanding channels, improving transaction efficiency and boosting the development of international trade.

Through the online and offline integration development in recent years, the Group has established and operated B2B trading platforms with significant influence for agricultural products, chemicals, plastics, ferrous and non-ferrous metals and energy, etc., and its supply chain management and trade business grew significantly. The Group will further expand into other sectors through organic development or merger and acquisition when appropriate opportunity arises, continuously enrich and perfect Zall Smart's intelligent ecosphere and further enhance operating efficiency.

Warehousing and logistics services

In respect of warehousing services, Zall Cloud Warehouse (卓爾雲倉), a subsidiary of the Group, focuses on the provision of offline warehouse goods custody and distribution services, warehouse leasing and financial products regulatory services for enterprises and their upstream and downstream distributors and wholesale markets through the integration of warehousing management, physical delivery, regulatory network, logistics and transportation, financial risk regulation and other resources within the trading sections of the ecosystem. Zall Cloud Warehouse has actively realised its national layout, with businesses distributed in over 50 cities, such as Shanghai, Wuhan, Ningbo, Nanning, etc. The number of regulatory inventory warehouses reached 350. Among them, 38 are regulatory warehouses with Internet of Things and advanced devices, which can achieve a visualized intelligent supervision model through the establishment of Zall Cloud Warehouse Intelligent Supervision Center (卓爾雲倉智能監管中心) in Wuhan. Meanwhile, Zall Cloud Warehouse deepened its integrated warehousing and distribution service capabilities in 2019, and the Group's first intelligent warehouse was completed at the end of 2019, providing efficient one-stop services for industries such as electrical appliances, maternal and child, shoes and clothing and fast-moving consumer goods. In the future, Zall Cloud Warehouse will utilize the five core cities of Wuhan, Guangzhou, Shanghai, Chengdu and Beijing as the base points and actively establish cooperative branch warehouses throughout the country. Through covering major cities across the country with the Zall Cloud Warehouse platform management and alliance, we will build an intelligent warehousing service platform with significant influence in China.

In respect of logistics services, based on the development strategy of "Technology Driven + Supply Chain Driven", Zallsoon (卓集送), a subsidiary of the Group, made innovation and development in logistics informatization and supply chain management, and helped the logistics industry to reduce costs and increase efficiency with the help of technology in 2019, in addition to providing enterprise customers with one-stop logistics services such as intracity express transportation, long-distance freight transportation, cold chain warehousing and distribution. In addition to creating our core proprietary intellectual property, Zallsoon has so far obtained 12 software copyrights and is applying for 11 patent inventions. Zallsoon was recognised as the "2018 National High and New Technology Enterprise" (二零一八年度國家高新技術企業) jointly awarded by the Bureau of Science and Technology of Hubei Province (湖北省科學技術廳), the Bureau of Finance of Hubei Province (湖北省財政廳) and the Tax Bureau of Hubei Province of the State Administration of Taxation (國家税務局湖北省税務局) in March 2019, as well as the honour of "Double soft (雙軟)" awarded by Hubei Software Industry Association (湖北省軟件協會). As of 31 December 2019, there was 115,000 drivers on the Zallsoon logistics system platform, and the accumulated number of orders in aggregate was over 100 million.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

Originated from the offline wholesale market, Zall Smart Commerce has undergone many years of internet transformation with experience in the physical market and new economic operations. The core value of the wholesale market is the level of prosperity in terms of transactions. Online transformation will help the prosperity of the offline markets, which in turn will contribute to the flow and scale of the online platforms. We will continue to develop the existing offline markets such as Tianjin E-commerce Mall and North Hankou International Trade Center and no material merger and acquisition is planned going forward. We will accelerate the integration of online and offline applications, and will bring greater development potential to Zall Smart through the mutual empowerment and joint development of online and offline platforms.

Zall Smart Commerce will continue to adhere to the main track of B2B and supply chain services with innovation, so as to build an intelligent trading system with high efficiency and low cost in a win-win situation and connecting global business intelligently. We look forward to working together with more companies in the PRC and overseas to achieve integration and symbiosis, redefining B2B and even the way in which the world trades, and jointly welcome the beginning of the new trade era.

EVENT OCCURRED SINCE THE END OF THE YEAR ENDED 31 DECEMBER 2019

Since the outbreak of the novel coronavirus (COVID-19) (the “Pandemic”), many provinces and municipalities in the PRC, including Hubei province, where the head office of the Group is located, have implemented emergency public health measures and taken various actions to prevent the spread of the Pandemic, including, among others, imposing conditions and restrictions on enterprises to resume work after the Chinese New Year holiday. The suspension of work and limited services of transportation have resulted in a general disruption of production, supply chain and logistics services across the PRC, which has led to a decrease in transaction amount and volume on various online commodity trading platforms operated by the Group of, among others, agricultural products and chemicals, and slowed down the recovery of receivables which negatively influenced the working capital. The Pandemic also has led to a temporary closure of offline commodity trading markets operated by the Group (such as the North Hankou International Trade Centre (漢口北國際商品交易中心) in Wuhan, Hubei province) and possible delay in construction progress of property development projects in Tianjin and Jingzhou. In view of the aforesaid impacts, the Group has been closely communicating with the suppliers on its online commodity trading platforms and offered certain concessionary measures to the tenants in the North Hankou International Trade Centre in order to assist and facilitate them to resume operations as soon as practicable. With the gradual lifting of restrictions by the local government in Wuhan in or around the early April in 2020, the North Hankou International Trade Centre has resumed operations recently and the Company will continue to assess the impact of the Pandemic on the Group’s business operations and will take appropriate measures as and when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENT PORTFOLIO

The portfolio of listed equity investments of the Group as at 31 December 2019 and 31 December 2018 were as follows:

As at 31 December 2019

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost	Carrying amount as at 31 December 2019	Unrealised holding loss arising on revaluation for the year ended 31 December 2019	Realised holding loss arising on disposal for the year ended 31 December 2019	Dividend received for the year ended 31 December 2019
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
00607.HKEX	Fullshare Holdings Limited ("Fullshare")	590,962,500	3.00%	620,157	95,287	812,810	61,705	–

As at 31 December 2018

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

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

As at 31 December 2019, the Group held approximately 590,962,500 (31 December 2018: 613,880,000) shares in Fullshare, representing approximately 3.0% of its entire issued share capital (31 December 2018: 3.11%). Fullshare is listed on the main board of the Stock Exchange. Its principal activities are property development, tourism, investment, provision of healthcare products and services business and new energy business. The Group recognised an unrealised holding loss of approximately RMB812.8 million for the year ended 31 December 2019 (31 December 2018: unrealised holding loss of RMB879.1 million). The carrying amount of investment in Fullshare accounts for approximately 0.15% of the Group's total assets as at 31 December 2019 (31 December 2018: 1.82%). The Group is of the view that the unrealised holding loss: (i) did not cover other items of the Group's results for the year ended 31 December 2019 and (ii) is non-cash in nature and relates to the change in fair value of the Group's investment in Fullshare that are volatile in nature, therefore, the unrealised holding loss will not adversely affect the Group's operating financial positions. The Group will closely monitor the performance of its investment and adjust its investment plan and portfolio when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue

Revenue of the Group increased significantly by approximately 29.9% from approximately RMB56,116.1 million for the year ended 31 December 2018 to approximately RMB72,898.8 million for the year ended 31 December 2019. The increase was primarily due to the offsetting effect of (i) the significant increase in revenue from supply chain management and trading business; (ii) the decrease in revenue from E-commerce and financial service business; (iii) the increase in revenue from construction contracts; and (iv) the decrease in the revenue from sales of properties and related services.

Revenue from supply chain management and trading business

The Group's revenue from supply chain management and trading business has contributed approximately 98.4% of the Group's total revenue for the year ended 31 December 2019. The significant increase in revenue from supply chain management and trading business was primarily attributable to (i) the significant increase in revenue from Zall Steel since its establishment in March 2018 and (ii) the significant increase in revenue from CIC since its establishment in May 2018.

Rental income from investment properties

The Group's rental income from investment properties increased by approximately 3.8% from approximately RMB740.9 million for the year ended 31 December 2018 to approximately RMB769.1 million for the year ended 31 December 2019. The increase was primarily due to the changes of the lessees of certain properties during the year.

Revenue from financing income

The Group's financing income decreased by approximately 49.3% from approximately RMB317.2 million for the year ended 31 December 2018 to approximately RMB160.9 million for the year ended 31 December 2019. The decrease was mainly due to that Shenzhen Sinoagri compressed its partial supply chain financial business to its upstream customers, based on the industrial research and analysis.

Revenue from E-commerce and financial services business

The Group's revenue from e-commerce and financial services business decreased by approximately 90.8% from approximately RMB106.1 million for the year ended 31 December 2018 to approximately RMB9.7 million for the year ended 31 December 2019. The decrease was mainly due to the disposal of Zalljinfu Information Technology (Wuhan) Co., Ltd ("Zalljinfu Information Technology") during 2019, the revenue from which was no longer consolidated into the financial statements of the Group.

Revenue from construction contract

The Group's revenue from construction contract to build certain properties on behalf of a third party increased by approximately 89.7% from approximately RMB5.0 million for the year ended 31 December 2018 to approximately RMB9.5 million for the year ended 31 December 2019. The revenue was recognised according to the actual cost incurred for the year ended 31 December 2019. The increase for the year 2019 was primarily due to the increase of the cost incurred for property development projects during the year.

Sales of properties and related services

Revenue from sales of properties and related services decreased by approximately 81.3% from approximately RMB682.8 million for the year ended 31 December 2018 to approximately RMB127.4 million for the year ended 31 December 2019.

The Group's revenue from sales of properties was generated from the sales of auxiliary facilities units, office and retails units and residences. The decrease in revenue from sales of properties was mainly attributed to the decrease in the gross floor area delivered in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

Cost of sales of the Group increased by approximately 31.4% from approximately RMB54,556.5 million for the year ended 31 December 2018 to approximately RMB71,673.8 million for the year ended 31 December 2019. The increase is primarily due to the significant increase in trading volume of Zall Steel and CIC.

Gross profit

Gross profit of the Group decreased by approximately 21.5% from approximately RMB1,559.6 million for the year ended 31 December 2018 to approximately RMB1,224.9 million for the year ended 31 December 2019. The Group's gross profit margin decreased from approximately 2.8% for the year ended 31 December 2018 to approximately 1.7% for the year ended 31 December 2019 which is mainly due to the changes of the revenue portfolio of the Group since the completion of acquisition of a majority equity interest in Shenzhen Sinoagri and HSH, and the establishment of Zall Steel and CIC. Given the characteristics of the supply chain management and trading business, it has contributed higher revenue but lower gross profit margin.

Other net loss

Other net loss of the Group increased by approximately 42.6% from approximately RMB530.5 million for the year ended 31 December 2018 to approximately RMB756.3 million for the year ended 31 December 2019. The increase was mainly due to the net loss recognized in the fair value change on the contingent consideration of acquisition of Shenzhen Sinoagri and loss on the dilution of interests in an associate.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased by approximately 7.8% from approximately RMB213.7 million for the year ended 31 December 2018 to approximately RMB197.0 million for the year ended 31 December 2019. The decrease was primarily due to the decrease in staff costs of approximately RMB5.4 million.

Administrative and other expenses

Administrative and other expenses of the Group decreased by approximately 13.0% from approximately RMB760.8 million for the year ended 31 December 2018 to approximately RMB662.1 million for the year ended 31 December 2019. The decrease was primarily due to offsetting effect of (i) decrease in share-based payment expenses of approximately RMB137.8 million and (ii) increase in staff cost of approximately RMB20.6 million.

Net valuation gain on investment properties

The Group holds a portion of properties developed for rental income and/or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by an independent property valuer. The net valuation gain on investment properties decreased by approximately 34.5% from approximately RMB3,865.2 million for the year ended 31 December 2018 to approximately RMB2,533.1 million for the year ended 31 December 2019. The decrease was primarily due to the decreased number of completed properties transferred to investment properties for rental purposes. The return of investment properties remains stable and the Group will closely monitors the performance of its investment and adjust investment plan when necessary.

Share of net losses of joint ventures

Share of net losses of joint ventures of the Group decreased by approximately 19.1% from share of net losses of approximately RMB2.3 million for the year ended 31 December 2018 to approximately share of net losses of RMB1.9 million for the year ended 31 December 2019. The decrease is primarily due to the decrease of Group's share of net losses of AP V-Best Supply Chain (Shanghai) Ltd. which is a joint venture of a majority equity interest since the acquisition of Shenzhen Sinoagri.

Share of net profits/(losses) of associates

Share of net profits/(losses) of associates changed from share of net losses of approximately RMB172.9 million for the year ended 31 December 2018 to share of net profits of approximately RMB8.3 million for the year ended 31 December 2019, which is mainly attributed to the profits from material associates of LightInTheBox and Ningbo Haishangxian Information Technology Co., Ltd. (寧波海上鮮信息技術有限公司).

MANAGEMENT DISCUSSION AND ANALYSIS

Finance income and costs

Finance income of the Group decreased by approximately 14.8% from approximately RMB206.0 million for the year ended 31 December 2018 to approximately RMB175.4 million for the year ended 31 December 2019. The decrease was mainly due to the decrease of interest income from fixed deposit.

Finance costs of the Group increased by approximately 59.6% from approximately RMB697.2 million for the year ended 31 December 2018 to approximately RMB1,112.5 million for the year ended 31 December 2019. The increase was mainly due to (i) the less amounts capitalised into properties under development and investment properties under development; (ii) the increase of the interest expense on interest-bearing borrowings; (iii) the increase of bill discounted expenses incurred by Shenzhen Sinoagri from adopting more bill settlements compared with last year.

Income tax

Income tax decreased by approximately 41.4% from approximately RMB1,074.2 million for the year ended 31 December 2018 to approximately RMB629.5 million for the year ended 31 December 2019. The decrease was mainly due to the decreased deferred tax as a result of the decrease of fair value gain from investment properties in 2019. The Group's effective tax rate increased from approximately 45.7% for the year ended 31 December 2018 to approximately 91.6% for the year ended 31 December 2019.

Profit for the year

For the year ended 31 December 2019, the Group recorded a net profit of approximately RMB57.5 million, representing a decrease of approximately 95.5% over the amount of approximately RMB1,273.9 million for the year ended 31 December 2018. For the year ended 31 December 2019, profit attributable to equity shareholders of the Company was approximately RMB92.8 million (31 December 2018: approximately RMB1,371.3 million).

Liquidity and capital resources

As at 31 December 2019, the Group had net current liabilities of approximately RMB2,405.0 million (31 December 2018: net current assets of approximately RMB605.7 million) and net assets of approximately RMB19,622.5 million (31 December 2018: approximately RMB19,608.8 million). As at 31 December 2019, the total equity attributable to equity shareholders of the Company amounted to approximately RMB19,079.0 million (31 December 2018: approximately RMB18,779.6 million), comprising issued capital of approximately RMB32.7 million (31 December 2018: approximately RMB32.4 million) and reserves of approximately RMB19,046.3 million (31 December 2018: approximately RMB18,747.2 million).

Cash position and treasury policies

The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC. The Group's cash and cash equivalents increased by approximately 11.2% from approximately RMB1,118.6 million as at 31 December 2018 to approximately RMB1,243.9 million as at 31 December 2019. The Group's cash and cash equivalents remain stable. The Group regularly and closely monitors its funding and treasury position to meet the funding requirements of the Group by taking into consideration the changes in economic conditions, its future capital requirements and projected strategic investment opportunities.

Interest-bearing borrowings

The Group's total long-term and short-term interest-bearing borrowings increased by approximately 30.0% from approximately RMB14,225.9 million as at 31 December 2018 to approximately RMB18,490.6 million as at 31 December 2019. The increase was mainly attributable to the increase of short-term loans to improve the liquidity of the Group. Majority of the loans were denominated in RMB, being the functional currency of the Group. Details of the interest rates during the year ended 31 December 2019 are set out in note 5(a) of the consolidated financial statements in this report.

Net gearing ratio

The Group's net gearing ratio increased from 52.4% as at 31 December 2018 to 65.7% as at 31 December 2019. The increase in net gearing ratio was mainly due to the increase of total short-term and long-term interest-bearing borrowings as at 31 December 2019. The net gearing ratio is calculated by dividing interest-bearing borrowings, net of cash and cash equivalents, pledged bank deposits and fixed deposits with banks with original maturity over three months, by total equity attributable to equity shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries. Accordingly, the Board expects any future exchange rate fluctuation will not have any material effect on the Group's business. As at 31 December 2019, the Group did not use any financial instruments for hedging purpose. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charge on assets

As at 31 December 2019, the Group had pledged certain of its assets with a total book value of approximately RMB28,386.6 million (31 December 2018: approximately RMB22,832.9 million) and a total book value of approximately RMB6,923.5 million (31 December 2018: approximately RMB6,238.6 million) for the purpose of securing certain of the Group's interest-bearing borrowings and bills payables respectively.

Material acquisitions and disposals of subsidiaries

In June 2019, Zalljinfu Corporate Management (Wuhan) Co., Ltd. ("Zalljinfu Corporate Management"), being an indirect wholly-owned subsidiary of the Company, and Zhong Bang Asset Management Co., Ltd. ("Zhong Bank Asset Management") entered into a disposal agreement, pursuant to which Zalljinfu Corporate Management agreed to sell, and Zhong Bang Asset Management agreed to purchase, the entire equity interest in Zalljinfu Information Technology at a total consideration of RMB21,000,000, and Zall Financial Services Group Co., Ltd. ("Zall Financial Services"), being an indirect wholly-owned subsidiary of the Company, and Zhong Bang Asset Management entered into a disposal agreement, pursuant to which Zall Financial Services agreed to sell, and Zhong Bang Asset Management agreed to purchase, 35% equity interest in Zhong Bang Financial Leasing Co., Ltd. ("Zhong Bang Financial Leasing") at a total consideration of RMB44,000,000. Zalljinfu Information Technology is a company established in the PRC with limited liability and the principal businesses of Zalljinfu Information Technology and its subsidiaries are asset management, consulting business and guarantee business, provision of finance leasing service and etc. Zhong Bang Financial Leasing is a company established in the PRC with limited liability and it principally engages in the provision of finance leasing service. The disposal of total equity interest of Zalljinfu Information Technology was completed in July 2019, while the disposal of 35% equity interest of Zhong Bang Financial Leasing is not completed as at 31 December 2019.

In November 2019, CCTC Technology (Wuhan) Co. Ltd.("CCTC Technology"), being an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with Hubei Huazhong Cotton Trade Centre Co. Ltd ("Huazhong Cotton Trade Centre"), pursuant to which Huazhong Cotton Trade Centre agreed to sell and CCTC Technology agreed to purchase the entire equity interest in CCTC (Taicang) Cotton Co. Ltd. ("CCTC (Taicang)"), at a total consideration of RMB30,964,000. CCTC (Taicang) is a company established in the PRC with limited liability and is a direct wholly-owned subsidiary of the Huazhong Cotton Trade Centre since its establishment. CCTC (Taicang) principally engages in online sales of textile raw materials and products, warehousing services and distribution of cotton raw materials and products. The aforementioned acquisition has been completed on 26 November 2019.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries or associates during the year ended 31 December 2019 and up to the date of this report.

Segment reporting

Details of the segment reporting of the Group for the year ended 31 December 2019 are set out in note 3(b) of the consolidated financial statements in this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

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

As at 31 December 2019, the guarantees in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB514.7 million (31 December 2018: RMB688.8 million). In addition, the Group provided a financial guarantee to a third party with bank deposits of the Group of RMB30,000,000 pledged to a bank as at 31 December 2019 (2018: nil).

CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRS, that are first effective for the current accounting period of the Group. For details, please refer to note 1(c) to the consolidated financial statements of the Company in this report.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group employed a total of 1,887 full time employees (2018: 1,919). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2019, the employees benefit expenses were approximately RMB302.5 million (2018: approximately RMB355.5 million). The decrease is mainly due to the decrease in share-based payment expense for the year ended 31 December 2019. The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as shares and options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires.

The Group has also adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including the Directors, and full-time or part-time employees, executives or officers of the Group who had contributed to the success of the Group's operations. In relation to the Share Option Scheme, 76,887,950 share options were outstanding as at 31 December 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yan Zhi (閻志), aged 47, is the executive Director of the Company since the establishment of the Group and has been re-designated as co-chairman of the board since August 2015 and co-chief executive officer since July 2018. He is primarily responsible for the Group's overall business and investment strategies, as well as supervising its project planning, business and operation management. He is also a member of the nomination committee of the Company. Mr. Yan Zhi is the founder of the Group and has extensive industry experience in commercial property and wholesale market and other investment and enterprise management experience in various industries including finance, real estate, logistics, commerce and aviation. Mr. Yan Zhi is a non-executive director and chairman of China Infrastructure & Logistics Group Ltd., which is listed on the Main Board of the Stock Exchange (formerly known as CIG Yangtze Ports PLC, a company transfer its listing to the Main Board of the Stock Exchange on 29 January 2018, stock code: 1719). Mr. Yan Zhi is a non-independent director and chairman of Wuhan Hanshang Group Co., Ltd. (武漢市漢商集團股份有限公司), a company listed on the Shanghai Stock Exchange. Mr. Yan Zhi has been appointed as a director of LightInTheBox, a company listed on the New York Stock Exchange since 30 March 2016, and has been appointed as chairman of the board since 28 June 2018. Mr. Yan Zhi is an independent director of DouYu International Holdings Limited, a company listed on the Nasdaq Stock Market at the same time. Mr. Yan Zhi is the representative of the 13th National People's Congress of China. In August 2017, he was elected as the chairman of the Wuhan Federation of Industry and Commerce. Mr. Yan Zhi received a master's degree in business administration for senior executives from Wuhan University (武漢大學) in February 2008 and his executive master of business administration degree at Cheung Kong Graduate School of Management (長江商學院) in September 2013, and was awarded a doctoral degree in Chinese History by Wuhan University in June 2018.

Dr. Gang Yu (于剛), aged 60, was appointed as an executive Director and co-chairman of the Board on 17 August 2015. Dr. Yu is currently a co-founder and executive chairman of the 111 Inc., a well-known pharmaceutical e-commerce platform listed on NASDAQ, and was a co-founder and chairman emeritus of Yihaodian, a leading e-commerce company in China. Dr. Yu has extensive experience in E-commerce and operation and logistics management. Prior to founding Yihaodian, he was Vice President, Worldwide Procurement at Dell Inc. Dr. Yu also served as Vice President, Worldwide Supply Chain Operations at Amazon. com. Prior to joining Amazon, Dr. Yu served as the Jack G. Taylor Chair Professor in Business in the Department of Management Science and Information Systems at the McCombs School of Business, the University of Texas at Austin, Director of the Center for Management of Operations and Logistics, and co-Director of the Center for Decision Making under Uncertainty. Dr. Yu is also the founder, former chairman and chief executive officer of CALEB Technologies Corporation. CALEB Technologies was acquired by Accenture in a merger and acquisition in 2002. Dr. Yu obtained his bachelor's degree in science from Wuhan University in 1982 and his master's degree in science from Cornell University in 1985. Dr. Yu received his PhD from the Wharton School of Business, University of Pennsylvania in 1990. Dr. Yu was awarded Franz Edelman Award for Management Science Achievement by INFORMS, an international association in 2002. He was also awarded Excellence in Research Award (優秀研究獎) and Best Thesis Award (最佳論文獎) by International Industrial Engineer Institute (國際工業工程師協會) twice in 2002 and 2003. He was awarded Martin Starr Excellence in Production and Operations Management Practice Award (Martin Starr 生產與運營管理卓越實踐獎) by POMS, an international association in 2012. Dr. Yu published over 80 articles on international professional magazines along with 6 books and three American patents. Dr. Yu has been appointed as a director of LightInTheBox, a company listed on the New York Stock Exchange since 30 March 2016. Also, Dr. Yu was appointed as independent director of Baozun Inc., which is listed on the Nasdaq Stock Market since April 2018 and was appointed as director of Midea Group Co., Ltd (美的集團股份有限公司), which is listed on the Shenzhen Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wei Zhe, David (衛哲), aged 49, was appointed as an independent non-executive Director on 11 April 2016 and has been re-designated as executive Director and appointed as chief strategy officer of the Company since 28 June 2017. Mr. Wei has over 18 years of experience in both investment and operational management in the PRC. Prior to launching Vision Knight Capital (China) Fund I, L.P., a private equity investment fund in 2011, Mr. Wei was an executive director and chief executive officer of Alibaba.com Limited, a leading worldwide B2B e-commerce company, for about five years, where he successfully led the company through its initial public offering and listing on the Hong Kong Stock Exchange in 2007. Alibaba.com Limited was delisted in June 2012. Prior to joining Alibaba.com Limited, Mr. Wei was the president, from 2002 to 2006, and chief financial officer, from 2000 to 2002, of B&Q China, the then subsidiary of Kingfisher plc, a leading home improvement retailer in Europe and Asia. Under Mr. Wei's leadership, B&Q China grew to become China's largest home improvement retailer. From 2003 to 2006, Mr. Wei was also the chief representative for Kingfisher's China sourcing office, Kingfisher Asia Limited. Prior to that, Mr. Wei served as the head of investment banking at Orient Securities Limited Liability Company (now Orient Securities Company Limited) from 1998 to 2000, and as corporate finance manager at Coopers & Lybrand (now part of PricewaterhouseCoopers) from 1995 to 1998. Mr Wei was a non-executive director of HSBC Bank (China) Company Limited and The Hongkong and Shanghai Banking Corporation Limited and an independent director of 500.com Limited, and was also the vice chairman of China Chain Store & Franchise Association. He was voted as one of "China's Best CEOs" by "FinanceAsia" magazine in 2010. Mr. Wei is also a non-executive director of PCCW Limited, Zhong Ao Home Group Limited and JNBY Design Limited, which are listed on the Hong Kong Stock Exchange, an independent director of Leju Holdings Limited and OneSmart International Education Group Limited, which are listed on the New York Stock Exchange, also a director of Hitevision Co., Ltd., which is listed on the Shenzhen Stock Exchange. Mr. Wei served as an independent director of Shanghai M&G Stationery Inc., which is listed on the Shanghai Stock Exchange from June 2014 to May 2017. Mr. Wei also served as an independent non-executive director of Informa PLC, which is listed on the London Stock Exchange, from June 2018 to May 2019. He holds a bachelor's degree in international business management from Shanghai International Studies University and has completed a corporate finance program at London Business School.

Mr. Qi Zhiping (齊志平), aged 47, joined the Group at the acquisition of 50.6% equity interest in Shenzhen Sinoagri by the Group in June 2017 and was appointed as an executive Director in July 2018. Mr. Qi was then the vice chairman of Shenzhen Sinoagri and holds the position after the above acquisition. Mr. Qi is also the co-chief executive officer of the Group and a member of the remuneration committee. Mr. Qi is primarily responsible for the integrated management of the online platform of the Group and the collaboration of various platforms, and the overall strategic planning and management capacity enhancement of Shenzhen Sinoagri, the planning for investment and development strategy of the Group, designing commercial models, engaging in investment projects decision and management of the Group. Mr. Qi was one of the founding members of Shenzhen Sinoagri. He has extensive experience on operation and management of retail chain, securities investment and E-commerce and experienced in corporate governance, strategic planning and global deployment. Mr. Qi obtained his bachelor degree in corporate management from Shenzhen University in 1994. He is currently studying the Executive Master of Business Administration (EMBA) programme of China Europe International Business School. Mr. Qi has been appointed as a director of LightInTheBox, a company listed on the New York Stock Exchange since 17 August 2018 and has been appointed as the vice chairman of its board since 16 November 2018.

Mr. Cui Jinfeng (崔錦鋒), aged 41, currently is the executive Director and executive vice president of the Group with over 15 years of corporate operation and management experience. Mr. Cui joined the Group in July 2005 and was appointed as an executive Director on 20 June 2011. He is currently the chairman of the Tianjin Zall E-commerce Mall and fully responsible for the financial management of the Group since January 2020. Mr. Cui is also a member of the risk management committee of the Company. Mr. Cui is the vice president of Zall Holdings Ltd., a company which is owned as to 99.95% by Mr. Yan Zhi. Mr. Cui also shoulders social duties by being a member of the Chinese Communist Youth League in the 17th National Congress of the Communist Party of China (中國共青團), Vice President of Hubei Young Entrepreneurs Association (湖北省青年企業家協會), standing committee member of the Wuhan Municipal Committee of the Chinese People's Political Consultative Conference (武漢市政協), standing committee member of the Wuhan City Federation of Industry and Commerce (武漢市工商聯) and standing committee member of the Tianjin Federation of Industry and Commerce (天津工商聯). He obtained his master's degree in business administration from The Chinese University of Hong Kong in July 2014.

Ms. Min Xueqin (閔雪琴), aged 36, was appointed as the executive director of the Group on 16 April 2019. Ms Min has over ten years of experience in the commercial property and wholesale shopping mall industries. Ms. Min joined the Group in 2008. Ms. Min is the vice president of the Group and vice president of North Hankou Group Co., Ltd. She is responsible for the Group's finance and capital related affairs. Since 2018, Ms. Min has served as the vice president of Zall Holdings Limited, being a company in which Mr. Yan Zhi, an executive Director, the co-chairman of the Board and co-chief executive officer of the Company, holds 99.95% shareholding, and as a director of Wuhan Z-Bank, being a company which is held as to 30% by Zall Holdings Limited. Ms. Min was appointed as the vice president of the 8th Hubei Young Entrepreneurs Association (湖北省青年企業家協會) in 2017. Ms. Min obtained a diploma in electronic commerce from Zhongnan University of Economics and Law (中南財經政法大學) in 2006. She enrolled in a course for obtaining an executive master of business administration degree at Wuhan University (武漢大學) in 2013.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Ka Fai (張家輝), aged 45, was appointed as an independent non-executive Director on 20 June 2011. He is also the chairman of the audit committee and a member of the nomination committee and risk management committee. Mr. Cheung has over 22 years of experience in auditing, accounting and finance. Prior to joining the Group, Mr. Cheung worked as an auditor at Deloitte Touche Tohmatsu and served as the financial controller and company secretary of two companies listed on the GEM of the Hong Kong Stock Exchange. Mr. Cheung was the chief financial officer and company secretary of Huscoke Resources Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange from June 2008 to July 2012 and an executive director of Huscoke Resources Holdings Limited from October 2009 to July 2012. He has been serving as the chief financial officer of Bonjour Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange from August 2012 to present. Mr. Cheung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 1997 and a master's degree in business administration from the University of Bradford in January 2008.

Mr. Wu Ying (吳鷹), aged 60, was appointed as an independent non-executive Director on 29 February 2016. He is also the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company. Mr. Wu is currently the chairman of China Capital Group since October 2008. Prior to joining China Capital Group, Mr. Wu served as chairman and chief executive officer of UTStarcom (China) Co. Ltd for 13 years. Mr. Wu has extensive experience in telecommunication industry and venture capital investment. Mr. Wu obtained his bachelor's degree in electronic engineering from the Beijing University of Technology in 1982 and obtained his master's degree in electronic engineering from the New Jersey Institute of Technology in 1988 and obtained doctor honoris causa from New Jersey Institute of Technology. Mr. Wu is currently an independent non-executive Director of Zhong An Online P & C Insurance Co., Ltd. (眾安在線財產保險股份有限公司) which is listed on the Hong Kong Stock Exchange. In addition, Mr. Wu is chairman of the board of supervisors of Huayi Brothers Media Corporation Ltd. (華誼兄弟傳媒股份有限公司) which is listed on the Shenzhen Stock Exchange, chairman of ZJBC Information Technology Co., Ltd. (中嘉博創信息技術股份有限公司) which is listed on the Shenzhen Stock Exchange and a director of HyUnion Holding Co., Ltd. (海聯金匯科技股份有限公司) which is listed on the Shenzhen Stock Exchange. Mr. Wu was an independent director of TCL Corporation Ltd. (TCL集團股份有限公司), which is listed on the Shenzhen Stock Exchange, for the period from September 2014 to August 2017.

Mr. Zhu Zhengfu (朱征夫), aged 56, was appointed as an independent non-executive Director on 10 March 2017. He is also the chairman of the remuneration committee and risk management committee and a member of the audit committee of the Company. Mr. Zhu is currently a partner and meeting chairman of Hylands Law Firm (浩天信和律師事務所). Prior to that, Mr. Zhu was the supervisor and executive partner of Kunlun Law Firm (廣東東方崑崙律師事務所) between 1999 and 2019. He was the deputy head of the Land Law Consultation Service Center of the Guangdong Province Land Resources Bureau (廣東省國土廳廣東地產法律諮詢服務中心) from 1995 to 1998, a partner at Guangdong Dalu Law Firm (廣東大陸律師事務所) from 1995 to 1998, the head of finance and real estate of Guangdong Economic Development Law Firm (廣州市經濟貿易律師事務所) from 1993 to 1995, and deputy department head of the economic development department of Wanbao Electronics Import and Export Co., Ltd. (萬寶電器進出口公司) from 1987 to 1993. Mr. Zhu is also an independent non-executive director of Dongjiang Environmental Co., Ltd. (東江環保股份有限公司), which is listed on the Hong Kong Stock Exchange, and Wuhan Sante Cableways Group Co. Ltd. (武漢三特索道集團股份有限公司), which is listed on the Shenzhen Stock Exchange, an independent non-executive director of Poly Developments and Holdings Group Co., Ltd.* (保利發展控股集團股份有限公司), which is listed on the Shenzhen Stock Exchange. He was an independent non-executive director of O Luxe Holdings Limited, which is listed on the Hong Kong Stock Exchange for the period from May 2015 to November 2017. Mr. Zhu has also been an independent non-executive director of Chong Kin Group Holdings Limited (創建集團（控股）有限公司), which is listed on the Hong Kong Stock Exchange, since January 2018. Mr. Zhu was an independent director of Beijing Honggao Creative Infrastructure and Design Co., Ltd.* (北京弘高創意建築設計股份有限公司), which is listed on the Shenzhen Stock Exchange, from November 2014 to April 2018. He was an independent non-executive director of WE Solutions Limited, which is listed on the Hong Kong Stock Exchange, from May 2015 to November 2017. He was also an independent non-executive director of Guangzhou Guangdong Daily Media Co., Ltd (廣東廣州日報傳媒股份有限公司), which is listed on the Shenzhen Stock Exchange, from March 2013 to August 2019. Mr. Zhu is also a member of the National Committee of the Chinese People's Political Consultative Conference and the vice president of the All China Lawyers Association. He graduated from Wuhan University with a PhD in International Economics Law in 1999 and holds a professional lawyer's certificate issued by the Ministry of Justice of the People's Republic of China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Yan Zhi (閻志), Mr. Qi Zhiping (齊志平), Mr. Cui Jinfeng (崔錦鋒) and Ms. Min Xueqin (閔雪琴) also serve as senior management of the Group, please refer to their biographical details as set out under the section of Executive Directors.

Mr. Zhu Guo Hui (朱國輝), aged 43, is the chief financial officer of the Company. Mr. Zhu joined the Group in August 2014 and is primarily responsible for the financial management and capital market of the Company. Mr. Zhu possesses over 19 years of experience in the capital markets of Hong Kong and Mainland China. Prior to joining of the Company, Mr. Zhu has worked in various financial institutions including Credit Suisse, Value Partners Group, a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 806) and BNP Paribas in connection with transactions on initial public offering, merger and acquisition, direct investment and corporate financing. Mr. Zhu holds a bachelor's degree in economics from The Central University of Finance and Economics and a master's degree in international business administration from The University of Hong Kong.

Mr. Li Bin (李斌), aged 49, is the executive vice president of the Group and the president of North Hankou Group Co., Ltd.. Mr. Li is overall in charge of development of offline properties and operation work. Mr. Li has over 20 years of experience in property management and market management. Mr. Li joined the Group in July 2007 as the general manager of Wuhan North Hankou Market Management Co., Ltd. and has held various positions within the Group. From May 1999 to June 2007, Mr. Li was manager of the property management department of Meijia Property Management (Wuhan) Co., Ltd. (美佳物業管理(深圳)有限公司武漢分公司). Mr. Li received a diploma in Chinese language and literature education from Hubei University (湖北大學) in 1995.

Mr. Cao Tianbin (曹天斌), aged 51, is the vice president of Zall Smart Commerce Group Ltd. and the president of North Hankou Group. He is mainly responsible for offline operation and property management work of the Group. Mr. Cao has approximately five years of experience in the wholesale market and investment management industry and over 19 years of experience in the operation and management of commercial projects. He joined the Group in August 2008 as the general manager of the business solicitation department of North Hankou Group Co., Ltd. and has also been the assistant to the general manager of Wuhan North Hankou Market Management Co., Ltd. since October 2009. Prior to joining our Group in August 2008, Mr. Cao served as the deputy general manager of Wuhan Wenhua Printing Co., Ltd. from August 1996 to July 2008. Mr. Cao obtained a diploma in mechanical and electronic engineering from Lanzhou University of Technology (formerly known as Gansu University of Technology) in July 1991 and a master's degree in economics from Zhongnan University of Economics and Law in December 2001.

Mr. Yu Wei (余偉), aged 37, is the vice president of the Group and the president of the Commodities Intelligence Centre. Mr. Yu joined the Group in October 2015 and is primarily responsible for logistics segment and technology segment of the Group, and the operation and day-to-day management of Commodities Intelligence Centre Pte. Ltd., CIC. He is a founding member of Zall Cloud Market. Prior to joining the Group, he has founded the first generation of local car travelling brand in 2012. Mr. Yu has engaged in sectors such as automobile, financing, travelling, internet, logistics platform and international bulk commodities trading for over 14 years. Mr. Yu obtained his graduate diploma in business administration from Wuhan Polytechnic University in 2006 and obtained master degree in Executive Master of Business Administration (EMBA) from China Europe International Business School in 2013.

Mr. Sun Wei (孫煒), aged 42, is a senior economist, the vice president of the Group and the CEO of Shenzhen Sinoagri, a subsidiary of the Group. Mr. Sun joined the Group in June 2017 upon the acquisition of 50.6% equity interest in Shenzhen Sinoagri by the Group and is primarily responsible for the coordination of Shenzhen Sinoagri's strategic positioning, overall operation and management, research and development of technology and investment projects. Mr. Sun Wei established Shenzhen Sinoagri in 2010 and obtained rich practical experience and innovative achievements in the fields of capital operation, industrial internet, supply chain finance and research and development of technology. Mr. Sun obtained a bachelor's degree in material forming and control engineering from Xi'an Jiaotong University in 2000, a master's degree in management science and engineering from Xi'an Jiaotong University in 2004 and a master degree in management in Executive Master of Business Administration (EMBA) from China Europe International Business School in 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Pan Fujie (潘富傑), aged 42, is the CEO of Shanghai Zall Steel E-commerce Co., Ltd., a black bulk commodities industry online platform and a subsidiary of the Group. Mr. Pan joined the Group in March 2018 upon the establishment of Zall Steel in joint ventures by the Group and Xiben New Line and is primarily responsible for setting strategic objectives of the Company, business model innovation and daily operation management. Mr. Pan has nearly 20 years of experience in operations, management and investment in the domestic and foreign trading sector of black bulk commodities such as steel, coal and mineral products, as well as years of experience in industrial internet innovation and practice. He has strategic planning, management and organizational leadership capabilities for large enterprises. Mr. Pan obtained a bachelor's degree in material management and engineering from Northern Jiaotong University (北方交通大學) in 1998, a MBA degree from Tsinghua University School of Economics and Management in 2009, and a master's degree in finance from Peking University School of Economics in 2017.

Mr. Bai Rui (白睿), aged 40, is the CEO of HSH, a subsidiary of the Group. He joined the Group in January 2020, and is mainly responsible for the overall operation and management of HSH, the establishment of risk control system and core team. In 2010, he graduated from Shandong University with a bachelor's degree in business administration and obtained an EMBA degree from Xiamen University. Prior to joining HSH, he served as a director and the general manager of Shanghai Gangyin E-Commerce Holdings Co., Ltd. During his tenure, he completed the steady transformation of different business models under the original system, and built a "seamless trading platform" integrating spot trading, online financing, payment and settlement, warehousing and logistics and other ancillary services, providing whole-process solutions for the industrial chain.

REPORT OF THE DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

GENERAL INFORMATION

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2019 are provided in the section headed "Chairman's Statement" on pages 4 to 7 and the section headed "Management Discussion and Analysis" on pages 8 to 17 of this annual report. An account of the Company's relationships with its key stakeholders is included in the paragraph headed "Relationships with Employees, Suppliers and Customers" of the report of the Directors on page 28 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2019 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 8 to 17 of this annual report.

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

RESULTS AND DISTRIBUTION

The profit of the Group for the year ended 31 December 2019 is set out in the consolidated statement of profit or loss on page 63.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (corresponding period in 2018: Nil).

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2019 and the state of the Company's and the Group's affairs as at that date are set out on pages 63 to 192.

RESERVES

Movements in the reserves of the Group during the year ended 31 December 2019 are set out on pages 67 to 68.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB4,061 million (2018: RMB3,882 million).

GROUP FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last five financial years are summarized on page 196 of this annual report.

SHARE CAPITAL

Changes in share capital of the Company for the year ended 31 December 2019 and as at that date are set out in note 30(b) to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

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

SHARE OPTION SCHEME

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

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

1. Purpose of the Share Option Scheme

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

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

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

2. Participants of the Share Option Scheme

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

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

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

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

REPORT OF THE DIRECTORS

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

The maximum number of shares which may be issued upon exercise of options which may be granted under the Share Option Scheme shall not in aggregate exceed 1,050,000,000 shares, representing approximately 8.91% of the issued shares of the Company as at the date of this report. As at the date of this report, the number of shares available for issue under the Share Option Scheme amounted to 973,112,050 shares, representing approximately 8.26% of the issued shares of the Company.

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

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

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

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

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

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

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

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

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

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

8. The basis of determining the exercise price

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

9. The remaining life of the Share Option Scheme

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

REPORT OF THE DIRECTORS

10. Movement of Share Options during the year under review

Particulars of share options under the Share Option Scheme (the "Share Option(s)") outstanding at the beginning and at the end of the financial year ended 31 December 2019 and Share Options granted, exercised, cancelled or lapsed during the financial year ended 31 December 2019 are as follows:

Category of participant	Date of Grant	Exercise price per share	Vesting date and exercise period	Balance as at 1 January 2019	Transfer from/ (to) other Category	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2019	Price per Share immediately before the date of grant	Price per Share on exercise date
Directors:												
Mr. Qi Zhiping	22 December 2017	HK$8.48	From the date when the exercise conditions are met to 21 December 2027 (Note 1)	2,283,398	Nil	Nil	Nil	Nil	Nil	2,283,398	HK$8.46	N/A (Note 3)
	4 September 2018	HK$6.66	(Note 2)	3,000,000	Nil	Nil	Nil	Nil	(900,000)	2,100,000	HK$6.52	N/A (Note 3)
Spouse of Mr. Qi Ziping	22 December 2017	HK$8.48	From the date when the exercise conditions are met to 21 December 2027 (Note 1)	41,101,154	Nil	Nil	Nil	Nil	Nil	41,101,154	HK$8.46	N/A (Note 3)
Mr. Cui Jinfeng	4 September 2018	HK$6.66	(Note 2)	2,000,000	Nil	Nil	Nil	Nil	(600,000)	1,400,000	HK$6.52	N/A (Note 3)
Ms. Min Xueqin (Note 4)	4 September 2018	HK$6.66	(Note 2)	N/A	2,000,000	Nil	Nil	Nil	(600,000)	1,400,000	HK$6.52	N/A (Note 3)
Employees of the Group	22 December 2017	HK$8.48	From the date when the exercise conditions are met to 21 December 2027 (Note 1)	2,283,398	Nil	Nil	Nil	Nil	Nil	2,283,398	HK$8.46	N/A (Note 3)
	4 September 2018	HK$6.66	(Note 2)	43,700,000	(2,000,000)	Nil	Nil	Nil	(15,380,000)	26,320,000	HK$6.52	N/A (Note 3)
Total				94,367,950	Nil	Nil	Nil	Nil	(17,480,000)	76,887,950		

REPORT OF THE DIRECTORS

Notes:

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

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

   (i) the first 30% of the Share Options shall be exercisable by the grantee commencing from the first trading date after the 12-month period from the date of grant and ending on the last trading date of the 24-month period from the date of grant. However, certain financial performance target of the first 30% of the Share Options has not been fulfilled and those Shares Options has lapsed;

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

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

3. No Share Options had been exercised during the financial year ended 31 December 2019.

4. Ms. Min Xueqin was appointed as an executive Director on 16 April 2019.

Save as disclosed above, there were no outstanding Share Options at the beginning and/or at the end of the year ended 31 December 2019 and there were no Share Options granted during the financial year ended 31 December 2019.

PERFORMANCE GUARANTEE IN RESPECT OF THE ACQUISITION OF SHENZHEN SINOAGRI

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

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

For the year ended 31 December 2019, the actual revenue and the actual net profit of Shenzhen Sinoagri amounted to approximately RMB33.9 billion and approximately RMB22.0 million respectively, which have not reached the Target Revenue and Target Net Profit for the financial year ended 31 December 2019 of RMB46.875 billion and RMB158 million as stated in the Acquisition Agreement respectively, and therefore the Performance Guarantee for the financial year 2019 has not been fulfilled and the Consideration will be adjusted according to the Acquisition Agreement and the Performance Guarantee set out in the Shenzhen Sinoagri Acquisition Circular.

REPORT OF THE DIRECTORS

MAJOR SUPPLIERS AND CUSTOMERS

During the year under review, the aggregate sales attributable to the Group's five largest customers comprised approximately 18.1% (2018: 23.9%) of the Group's total sales and the sales attributable to the Group's largest customer were approximately 5.9% (2018: 8.9%) of the Group's total sales.

The aggregate purchases during the year under review attributable to the Group's five largest suppliers were approximately 17.7% (2018: 24.2%) of the Group's total purchases; and the purchases attributable to the Group's largest supplier were approximately 5.3% (2018: 9.1%) of the Group's total purchases. Purchases of the Group include purchases which are required on a regular basis to enable the Group to continue to supply its customers. Accordingly, purchases include, but not limited to, land purchased from the government and the cost of construction materials, and goods purchased from suppliers.

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

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

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

INTEREST-BEARING BORROWINGS

Particulars of interest-bearing borrowings of the Group as at 31 December 2019 are set out in note 25 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year under review amounted to approximately RMB1 million (2018: RMB15 million).

PROPERTY, PLANT AND EQUIPMENT

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

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

Details of the movements in the investment properties of the Group during the year are set out in note 10 to the consolidated financial statements. Particulars of investment properties, properties under development and completed properties held for sale are shown under the section of "Major Properties Information" on pages 193 to 195.

SIGNIFICANT INVESTMENT HELD

Particulars of major properties of the Group as at 31 December 2019 are set out in the section headed "Major Properties Information" on pages 193 to 195 of this annual report.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

ISSUE OF SHARES AND USE OF PROCEEDS

As disclosed in the Shenzhen Sinoagri Acquisition Circular dated 15 February 2017, the Company shall issue (i) 81,252,000 shares (being the consideration shares) to Ms. Chan Nanjula Wai Po upon the completion of acquisition of Ronald Development International Limited; and (ii) the Company shall issue (i) 19,842,000 shares (being the consideration shares) to Ms. Chan Nanjula Wai Po upon the completion of acquisition of Sweet Returns Investment Limited (collectively, "Second Completion"). Details of the transactions are set out in the circular dated 15 February 2017.

On 10 June 2019, the Company has allotted and issued a total of 101,094,000 shares of the Company to Ms. Chan Nanjula Wai Po at the issue price and net price of HK$4.19 per share following the Second Completion. The aggregate nominal value of the consideration shares is approximately HK$337,000 and the market price of each share is HK$1.94 on that date. The reason for issuance of the new shares is for the completion of the Second Completion. The use of proceeds is for the abovementioned acquisition and the proceeds have been fully utilized for such purpose during the year.

DIRECTORS

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

Executive Directors:

Mr. Yan Zhi (Co-Chairman and Co-Chief Executive Officer)
Dr. Gang Yu (Co-Chairman)
Mr. Wei Zhe, David
Mr. Qi Zhiping (Co-Chief Executive Officer)
Mr. Cui Jinfeng
Ms. Min Xueqin (appointed on 16 April 2019)

Independent Non-Executive Directors:

Mr. Cheung Ka Fai
Mr. Wu Ying
Mr. Zhu Zhengfu

In accordance with article 84(1) of the Articles, at each annual general meeting, one-third of the Directors shall retire from office by rotation, accordingly each of Mr. Yan Zhi, Dr. Gang Yu and Mr. Wei Zhe, David will retire from the office of Director by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on 15 June 2020 (the "AGM").

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 18 to 22 of this annual report.

CONFIRMATION OF INDEPENDENCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has adopted internal control and risk management policies to monitor the on-going compliance with relevant laws and regulations. As far as the Board is concerned, the Group has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries in all material aspects.

REPORT OF THE DIRECTORS

CHANGE OF DIRECTORS' INFORMATION

Upon specify enquiry by the Company and following confirmations from the Directors, save as otherwise set out in this report, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since 1 July 2019. The Directors' updated information is set out below:

1. Mr. Yan Zhi was appointed as an independent director of DouYu International Holdings Limited, which is listed on Nasdaq Stock Market, in July 2019.

2. Mr. Zhu Zhengfu ceased to act as an independent non-executive director of Guangzhou Guangdong Daily Media Co., Ltd. (廣東廣州日報傳媒股份有限公司), which is listed on Shenzhen Stock Exchange, in August 2019.

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' EMOLUMENTS AND EMOLUMENT POLICY

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

INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Details of the continuing connected transactions and material related party transactions are disclosed in this report and in note 34 to the consolidated financial statements.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors held any interests in any competing business against the Company or any of its jointly controlled entities and subsidiaries during the year ended 31 December 2019.

EQUITY-LINKED AGREEMENT

Save for the Share Option Scheme adopted by the Company on 20 June 2011 as disclosed in the section headed "Share Option Scheme" and "Issue of Shares and Use of Proceeds" in this report, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

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

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

As at 31 December 2019, the interests or short positions of each Director and chief executive in the shares, underlying shares or debentures of the Company or its any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are being taken or deemed to have taken under such provision of the SFO); or were required pursuant to Section 352 of the SFO to be recorded in the register referred to therein; or were required pursuant to the Model Code for Securities Transactions by Directors of the Company (the "Model Code") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Interests in shares of the Company

Name of director	Nature of interest	Number of ordinary shares/underlying shares in the Company as at 31 December 2019	Approximate percentage of Shareholding as at 31 December 2019[6]
Yan Zhi	Interest of controlled corporations	6,902,684,268 (L)[1]	58.58%
	Beneficial owner	73,833,000 (L)	0.63%
Gang Yu	Beneficial owner	101,090,840 (L)	0.86%
	Interest of spouse	11,800,000 (L)	0.10%
Cui Jinfeng	Beneficial owner	5,012,500 (L)[3]	0.04%
Wei Zhe, David	Interest of a controlled corporation	132,144,000 (L)[2]	1.12%
		132,144,000 (S)[2]	1.12%
	Beneficial owner	10,746,000 (L)	0.09%
		10,746,000 (S)	0.09%
Qi Zhiping	Beneficial owner	6,786,351 (L)[4](a)	0.06%
	Interest of spouse	48,664,298 (L)[4](b)	0.41%
Min Xueqin	Beneficial owner	2,515,000 (L)[5]	0.02%

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

REPORT OF THE DIRECTORS

Notes:

(1) The 6,609,022,268 shares and 293,662,000 shares are held by Zall Development Investment Company Limited ("Zall Development Investment") and Zall Holdings Company Limited respectively. Both companies are wholly owned by Mr. Yan Zhi.

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

(3) These interests comprise 3,612,500 shares and 1,400,000 underlying shares in respect of share options granted by the Company pursuant to the Share Option Scheme, details of which are set out in the section headed "Share Option Scheme".

(4) (a) These interests comprise 2,402,953 shares and 4,383,398 underlying shares in respect of share options granted by the Company pursuant to the Share Option Scheme, details of which are set out in the section headed "Share Option Scheme".

(b) These interests comprise 7,563,144 shares and 41,101,154 underlying shares in respect of share options granted by the Company pursuant to the Share Option Scheme, details of which are set out in the section headed "Share Option Scheme".

(5) These interests comprise 1,115,000 shares and 1,400,000 underlying shares in respect of share options granted by the Company pursuant to the Share Option Scheme, details of which are set out in the section headed "Share Option Scheme".

(6) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2019 (11,782,825,800 ordinary shares).

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company and their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDER(S)' AND OTHER INTERESTS

So far as is known to any Director, as at 31 December 2019, the following persons (other than a Director or chief executive of the Company) had or deemed or taken to have an interest or short position in the shares or underlying shares of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number of ordinary shares/underlying shares held as at 31 December 2019	Percentage of shareholding as at 31 December 2019[3]
Substantial shareholder			
Zall Development Investment	Beneficial owner	6,609,022,268 (L)[1]	56.09%
Other persons			
Ji Changqun	Interest in a controlled corporation	949,224,000 (L)[2]	8.06%
Magnolia Wealth International Limited	Interest in a controlled corporation	949,224,000 (L)[2]	8.06%
Fullshare Holdings Limited	Interest in a controlled corporation	949,224,000 (L)[2]	8.06%
Rich Unicon Holdings Limited	Beneficial owner	949,224,000 (L)[2]	8.06%

(L) represents long position.

Notes:

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

(2) The 949,244,000 shares are held by Rich Unicorn Holdings Limited, a company which is wholly owned by Fullshare Holdings Limited, which in turn is owned as to approximately 38.69% by Magnolia Wealth International Limited, which in turn is wholly owned by Mr. Ji Changqun.

(3) The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2019 (11,782,825,800 ordinary shares).

There was duplication of interest of 6,609,022,268 shares between Mr. Yan Zhi and Zall Development Investment Company Limited.

There was duplication of interest of 949,224,000 shares among Rich Unicorn Holdings Limited, Fullshare Holdings Limited, Magnolia Wealth International Limited and Mr. Ji Changqun.

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any person, other than a Director or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

RETIREMENT BENEFIT PLANS

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

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 14%-20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

For the year ended 31 December 2019, the Group's total contributions to the retirement schemes charged in the consolidated statement of profit or loss amounted to approximately RMB30.1 million (2018: approximately RMB24.7 million).

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group entered into the following connected transactions with its connected persons:

(a) Sale and purchase agreements with Zhong Bang Asset Management Co., Ltd.* (眾邦資產管理有限公司) ("Zhong Bang Asset Management") dated 30 June 2019 and provision of financial assistance to connected persons

On 30 June 2019, Zalljinfu Corporate Management (Wuhan) Co., Ltd.* (卓爾金服企業管理(武漢)有限公司) ("Zalljinfu Corporate Management"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "First Disposal Agreement") with Zhong Bang Asset Management, pursuant to which Zalljinfu Corporate Management agreed to sell, and Zhong Bang Asset Management agreed to purchase, the entire equity interest in Zalljinfu Information Technology (Wuhan) Co., Ltd.* (卓爾金服信息科技(武漢)有限公司) ("Zalljinfu Information Technology") at a total consideration of RMB21,000,000 (the "First Disposal").

On 30 June 2019, Zall Financial Services Group Co., Ltd.* (卓爾金融服務集團有限公司) ("Zall Financial Services"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Zhong Bang Asset Management, pursuant to which Zall Financial Services agreed to sell, and Zhong Bang Asset Management agreed to purchase, 35% equity interest in Zhong Bang Financial Leasing Co., Ltd.* (眾邦融資租賃有限公司) at a total consideration of RMB44,000,000 (the "Second Disposal").

Zhong Bang Asset Management is held as to 99.95% by Mr. Yan Zhi, an executive Director, the Co-Chairman, Co-Chief Executive Officer and a controlling Shareholder of the Company. Accordingly, Zhong Bang Asset Management is an associate of Mr. Yan Zhi and is therefore a connected person of the Company under the Listing Rules, and the First Disposal and the Second Disposal constituted connected transactions of the Company, in respect of which an announcement dated 1 July 2019 was published by the Company in compliance with Chapter 14A of the Listing Rules.

As the applicable percentage ratio(s) in respect of each of the First Disposal and the Second Disposal, on a standalone basis and when aggregated with each other in accordance with Rules 14.22 and 14A.81 of the Listing Rules, exceeded 0.1% but were less than 5%, each of the First Disposal and the Second Disposal was only subject to the reporting and announcement requirements and was exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at 31 December 2018, Zalljinfu Information Technology and its subsidiaries (the "Disposal Group") indebted to members of the Group for a sum of approximately RMB350,000,000 (the "Current Account Balance"). Pursuant to the First Disposal Agreement, Zalljinfu Corporate Management and Zhong Bang Asset Management agreed that Zhong Bang Asset Management shall repay within six months after completion of the First Disposal the Current Account Balance to Zalljinfu Corporate Management. At the date of this report, the amount has been settled.

REPORT OF THE DIRECTORS

Upon completion of the First Disposal and Second Disposal, each of the companies in the Disposal Group held by Zhong Bang Asset Management which is held as to 99.95% by Mr. Yan Zhi, would become a connected person of the Company. Accordingly, the outstanding Current Account Balance owed by the Disposal Group to members of the Group would constitute financial assistance provided by the Group to the Disposal Group under Chapter 14 of the Listing Rules and a connected transaction under Chapter 14A of the Listing Rules.

As the applicable percentage ratio(s) in respect of the settlement of the Current Account Balance were less than 5% but more than 0.1%, the financial assistance provided thereunder was only subject to the reporting and announcement requirements and was exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(b) Sale and purchase agreement with Zhong Bang Asset Management dated 2 August 2019 and provision of financial assistance to a connected person

On 2 August 2019, Zalljinfu Corporate Management, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Disposal Agreement") with Zhong Bang Asset Management, pursuant to which Zalljinfu Corporate Management agreed to sell, and Zhong Bang Asset Management agreed to purchase, the entire interest in Wuhan Hankoubei Guarantee Investment Company Limited * (武漢漢口北擔保投資有限公司) ("Hankoubei Guarantee"), at a total consideration of RMB198,000,000 (the "Disposal").

Zhong Bang Asset Management is held as to 99.95% by Mr. Yan Zhi, an executive Director, the Co-Chairman, Co-Chief Executive Officer and a controlling Shareholder of the Company. Accordingly, Zhong Bang Asset Management is an associate of Mr. Yan Zhi and is therefore a connected person of the Company under the Listing Rules, and the Disposal constituted a connected transaction of the Company, in respect of which an announcement dated 2 August 2019 was published by the Company in compliance with Chapter 14A of the Listing Rules.

As at 30 June 2019, members of the Group were indebted to Hankoubei Guarantee for a sum of approximately RMB239,000,000 (the "Current Account Payable"), and subsidiaries of Zhong Bang Asset Management was indebted to members of the Group for a sum of approximately RMB372,000,000 (the "Current Account Receivable"). Pursuant to the Disposal Agreement, Zalljinfu Corporate Management and Zhong Bang Asset Management agreed that the Current Account Payable would be set off against the Current Account Receivable, so that Zhong Bang Asset Management would owe to the Group a net sum of RMB133,000,000 which Zhong Bang Asset Management undertook to repay to the Group within two months after completion of the Disposal. At the date of this report, the amount has been settled.

Upon completion of the Disposal, Hankoubei Guarantee, being a direct wholly-owned subsidiary of Zhong Bang Asset Management which is held as to 99.95% by Mr. Yan Zhi, would become a connected person of the Company. Accordingly, the outstanding Current Account Payable owed by members of the Group to Hankoubei Guarantee would constitute financial assistance under Chapter 14A of the Listing Rules and a connected transaction under Chapter 14A of the Listing Rules.

As the applicable percentage ratio(s) in respect of the settlement of the Current Account Payable were less than 5% but more than 0.1%, the financial assistance received thereunder by members of the Group was only subject to the reporting and announcement requirements and was exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

(c) Sale and purchase agreement with Hubei Huazhong Cotton Trade Centre Co. Ltd.* (湖北華中棉紡交易中心有限公司) ("Huazhong Cotton Trade Centre") dated 12 November 2019

On 12 November 2019, CCTC Technology (Wuhan) Co. Ltd.* (華棉網科技（武漢）有限公司) ("CCTC Technology"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Acquisition Agreement") with Huazhong Cotton Trade Centre, pursuant to which Huazhong Cotton Trade Centre agreed to sell and CCTC Technology agreed to purchase the entire equity interest in CCTC (Taicang) Cotton Co. Ltd.* (華棉所(太倉)棉紡有限公司) at a total consideration of RMB30,964,000 (the "Acquisition").

Huazhong Cotton Trade Centre is held as to 99.95% by Mr. Yan Zhi, an executive Director, the Co-Chairman, Co-Chief Executive Officer and a controlling Shareholder of the Company. Accordingly, Huazhong Cotton Trade Centre is an associate of Mr. Yan Zhi and is therefore a connected person of the Company under the Listing Rules, and the Acquisition constituted a connected transaction of the Company, in respect of which an announcement dated 12 November 2019 was published by the Company in compliance with Chapter 14A of the Listing Rules.

As the applicable percentage ratio(s) in respect of the Acquisition were less than 5% but more than 0.1%, the Acquisition was only subject to the reporting and announcement requirements and was exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group conducted the following continuing connected transactions:

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

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

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

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

For the year ended 31 December 2019, the aggregate amount of the transactions under the First Lease Agreement amounted to approximately RMB3.3 million (2018: RMB3.3 million), which is within the annual cap of RMB3.3million.

REPORT OF THE DIRECTORS

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

On 18 May 2017, Wuhan North Hankou Trade Market Investment Co., Ltd.* (武漢漢口北商貿市場投資有限公司) ("Wuhan North Hankou"), a wholly-owned subsidiary of the Company, entered into a lease agreement (the "Second Lease Agreement") with Wuhan Z-Bank, pursuant to which Wuhan North Hankou agreed to lease certain properties located at D2 North Hankou International Trade Centre, No. 88 North Hankou Road, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC*(湖北省武漢市黃陂區盤龍城經濟開發區漢口北大道88號漢口北國際商品交易中心D2區) with an aggregate area of 4,897.5 square meters to Wuhan Z-Bank for a term of three years commencing from 18 May 2017 to 17 May 2020 at a monthly rent of RMB1,469,250 and monthly property management fee of RMB24,487.50. In 2018, Wuhan North Hankou revised the lease agreement with Wuhan Z-Bank, of which the leased properties decreased to 3,360 square meters and the total rental fee for the year ended 31 December 2019 revised to RMB3,478,500.

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

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

For the year ended 31 December 2019, the aggregate amount of the transaction under the Second Lease Agreement amounted to approximately RMB3.5 million (2018: approximately RMB3.5 million), which is within the annual cap of RMB17.9 million.

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

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

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

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

REPORT OF THE DIRECTORS

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

For the year ended 31 December 2019, the aggregate amount of the transaction under the Third Lease Agreement, amounted to approximately RMB32.7 million (2018: approximately RMB29.9 million), which is within the annual cap of approximately RMB32.7 million.

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

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

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

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

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

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

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

For the year ended 31 December 2019, the maximum daily balance (including interests accrued thereon) of deposits placed by the Group with Wuhan Z-Bank amounted to approximately RMB594 million (2018: approximately RMB407 million) which is within the daily deposit cap of RMB1,600 million.

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

REPORT OF THE DIRECTORS

CONFIRMATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have reviewed and confirmed that for the year ended 31 December 2019, the continuing connected transactions as set out above have been entered into by the Group:

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

(b) on normal commercial terms or better; and

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

CONFIRMATION BY THE AUDITOR OF THE COMPANY

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

RELATED PARTY TRANSACTIONS

Details of the material related party transactions undertaken during the year are set out in note 34 to the consolidated financial statements. For those related party transactions that constituted connected transactions or continuing connection transactions (as the case may be) (other than those described in the sections above headed "Connected Transactions" and "Continuing Connected Transactions"), these transactions are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

In order to determine who are eligible to attend and vote at the AGM, the Company's register of members will be closed from Wednesday, 10 June 2020 to Monday, 15 June 2020 (both days inclusive), during which no transfer of shares of the Company will be effected. In order to be qualified to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 9 June 2020.

AUDIT COMMITTEE

The Group's annual report for the year ended 31 December 2019 has been reviewed by the audit committee of the Company ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by KPMG. KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming AGM.

By order of the Board
Yan Zhi
Co-chairman

Hong Kong, 29 April 2020

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

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

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its corporate governance code of practices upon the listing of its shares on the Stock Exchange. In the opinion of the Board, the Company had complied with the code provisions as set out in the CG Code throughout the year ended 31 December 2019.

THE BOARD

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

The biographical details of the current Board members are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 18 to 22 of this annual report. Save as otherwise disclosed, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

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

Independent non-executive Directors

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

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

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

BOARD COMMITTEES

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

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

During the year ended 31 December 2019, the Audit Committee met two times and it has reviewed the Group's consolidated financial statements for the six months ended 30 June 2019 and for the year ended 31 December 2018 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters.

CORPORATE GOVERNANCE FUNCTIONS

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

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

REMUNERATION COMMITTEE

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

The Remuneration Committee consists of two independent non-executive Directors, Mr. Zhu Zhengfu and Mr. Wu Ying, and one executive Director, Mr. Qi Zhiping. Mr. Zhu Zhengfu serves as the chairman of the Remuneration Committee.

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

During the year, the Remuneration Committee met once to review the remuneration policy of the Company, including the structure and level of remuneration payable to the Directors and senior management of the Company and making recommendations to the Board on the annual remuneration package of each of the individual Director of the Company.

In addition, the Remuneration Committee has resolved by written resolutions in lieu of meeting to recommend to the Board for approval the service contract and the terms of remuneration for the appointment of Ms. Min Xueqin as executive Director of the Company.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

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

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

During the year, the Nomination Committee met once to review the structure, size and composition of the Board and considered that the current Board consists of a diverse mix of members appropriate to the requirements of the businesses of the Company. It has also considered and recommended to the Board for approval the list of retiring Directors for re-election at the 2019 annual general meeting of the Company.

In addition, the Nomination Committee has resolved by written resolutions in lieu of meeting to recommend to the Board for approval the appointment of Ms. Min Xueqin as executive Director of the Company after consideration of a range of diversity perspectives.

Board Diversity

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

1. at least one third of the Directors shall be independent non-executive Directors;

2. at least one Director is female; and

3. at least one Director shall have obtained accounting or other professional qualifications.

During the year ended 31 December 2019, all the measurable objectives have been fulfilled.

Nomination Policy

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

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT COMMITTEE

The risk management committee of the Company ("Risk Management Committee") was established on 31 March 2017 with written terms of reference in compliance with the CG Code. The purpose of establishment of the Risk Management Committee is to identify, discuss, address and review any risk or potential risk of the Company and advise the Board of the overall risk management strategies of the Company.

The Risk Management Committee consists of two independent non-executive Directors, Mr. Zhu Zhengfu and Mr. Cheung Ka Fai and one executive Director, Mr. Cui Jinfeng. Mr. Zhu Zhengfu serves as the chairman of the Risk Management Committee.

The Risk Management Committee is responsible for advising the Board on the overall risk appetite/tolerance, risk management strategies and internal control of the Company and its subsidiaries and overseeing senior management's implementation of those strategies established and approved by the Board and providing an independent review of the effectiveness of the strategies adopted to ensure that it aligned with the Company's overall business objectives.

During the year, the Risk Management Committee met once to review and assess the adequacy and effectiveness of the risk management and internal control systems of the Group, and recommend to the Board for the approval of the risk management report for the year ended 31 December 2018.

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

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

	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	General Meeting
Executive Directors						
Mr. Yan Zhi (Co-chairman and Co-chief executive officer)	4/4	N/A	1/1	N/A	N/A	1/1
Dr. Gang Yu (Co-chairman)	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Wei Zhe, David	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Cui Jinfeng	4/4	N/A	N/A	N/A	1/1	1/1
Ms. Min Xueqin (Note)	3/3	N/A	N/A	N/A	N/A	1/1
Mr. Qi Zhiping (Co-chief executive officer)	4/4	N/A	N/A	1/1	N/A	1/1
Independent non-executive Directors						
Mr. Cheung Ka Fai	4/4	2/2	1/1	N/A	1/1	1/1
Mr. Wu Ying	4/4	2/2	1/1	1/1	N/A	1/1
Mr. Zhu Zhengfu	4/4	2/2	N/A	1/1	1/1	1/1

Note: Ms. Min Xueqin was appointed as executive Director with effect from 16 April 2019.

CORPORATE GOVERNANCE REPORT

DIRECTORS' TRAINING

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

During the year ended 31 December 2019, the Company has provided the Directors with written training materials and/or updates covering topics of amendments to the Listing Rules, duties and responsibilities of Directors as well as corporate governance related matters relevant to their duties. the Directors had participated internal training of notification transaction. All the Directors, namely Mr. Yan Zhi, Dr. Gang Yu, Mr. Wei Zhe, David, Mr. Cui Jinfeng, Mr. Qi Zhiping, Ms. Min Xueqin (appointed on 16 April 2019), Mr. Cheung Ka Fai, Mr. Wu Ying, and Mr. Zhu Zhengfu have received the requisite training.

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

	Attendance/ Number of seminars
Executive Directors:	
Mr. Yan Zhi	1/1
Dr. Gang Yu	1/1
Mr. Wei Zhe, David	1/1
Mr. Qi Zhiping	1/1
Mr. Cui Jinfeng	1/1
Ms. Min Xueqin (appointed on 16 April 2019)	1/1
Independent Non-Executive Directors:	
Mr. Cheung Ka Fai	1/1
Mr. Wu Ying	1/1
Mr. Zhu Zhengfu	1/1

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code for dealing in securities of the Company by the Directors. Having made specific enquiries with all Directors, all Directors have confirmed compliance with the required standards set out in the Model Code during the year ended 31 December 2019. Employees of the Group, who are likely to be in possession of unpublished inside information, have been requested to comply with provisions similar to those terms in the Model Code.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the financial year ended 31 December 2019 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards. The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements of the Company is set out in the "Independent Auditor's Report" on pages 52 to 62 of this annual report.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

For the year ended 31 December 2019, the remuneration paid or payable to the Group's auditors, KPMG is as follows:

Items	amount (RMB'000)
Audit services for 2019	5,150

REMUNERATION OF SENIOR MANAGEMENT

Pursuant to Code Provision B.1.5, the remuneration of the member(s) of senior management of the Group (excluding the Directors of the Company) for the year by band is as follows:

	Number of individuals
Nil to RMB1,000,000	4
RMB1,000,001 to RMB2,000,000	2
RMB2,000,001 to RMB3,000,000	1

RISK MANAGEMENT AND INTERNAL CONTROL

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

MAIN FEATURES OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

CORPORATE GOVERNANCE REPORT

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

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

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Company has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2019, and considered the risk management and internal control systems of the Group are effective and adequate.

MANAGEMENT OF KEY RISKS

The Group adopts a well-established risk management system to monitor its key risks and, with the contribution of Board and senior management, identify, assess, monitor and respond to risks through a closed-loop mechanism. In 2019, the Company identified the following key risks:

1. Information system risk

The Group currently has a huge online internet business and a prosperous offline physical market, and through information technology, has realised the business mode of integration, synergy and mutual development between two forming comprehensive and effective operation and management foundation. With the expansion of the scale of the Group, the information system involved in the enterprise network becomes more complicated. Any issues in the operation and security of system and equipment, business data, application and development and communication technology of each business segment may affect the Group as a whole. In addition to affecting the operation efficiency, it will also damage the core competitiveness of the Group. Therefore, information system risk remains as the key risk of the Group during the year.

The Company attaches great importance to the overall information system security of the Group, and has continuously strengthened the construction and maintenance of the information system from top to bottom. The Company further streamlined and improved the security of the existing information system during the year, integrated and aligned the security management policies, operating standards and technical standards of each business segment of the Group, and established the security management and control structure of the information system of the Group and identified the person-in-charge for security of each subsidiary. The Company has also implemented regular inspection mechanism for different business segments to ensure that its information system meets the security standards set by the Group. Meanwhile, it has incorporated the security of the information system into the performance evaluation of subsidiaries to form a more complete accountability system to ensure effective monitoring of the information system risk of the Group.

2. Corporate culture

After continuous horizontal and vertical development of the industry chain, the Group gathered corporate teams and talents from different business fields to form a diversified industrial ecosphere. The Company, as the main body of the Group, after the acquisition or merger, not only streamlined and linked the management structure, communication mechanism and operating system of both parties, but also sought to adjust and reconstruct the corporate culture, implanted the concept of Zall and formed common value and operating goal to achieve the integration of corporate spirit. As the acquisition date of each subsidiary varies, some of them are still in the adjustment period with the Group. The corporate culture difference between subsidiaries may affect the consistency of the implementation of the Company's policies, and the Group may not be able to steadily operate on the strategic track.

The Company has always regarded the compatibility and integration of corporate culture as the primary governance work, and actively established new common culture with subsidiaries to shape the overall value concept and corporate spirit, so as to enhance the loyalty and cohesion of employees and reduce the risk arising from misaligned corporate culture. Through continuous promotion and guidance, the Company encourages subsidiaries to preserve their own subculture while adhering to Zall's values. The Company also holds regular meetings with the management of subsidiaries to promote communication and create a consistent mindset. Looking forward, the Company will continue to deepen the construction of corporate culture and strengthen the foundation and core value of its enterprise to achieve its long-term goals.

CORPORATE GOVERNANCE REPORT

3. Support from the government and financial sector

The Group's main revenue is and will continue to be generated from the Internet B2B industry and commodities trading market. As a leading large-scale integrated supply chain service enterprise, the Group will inevitably be affected by the global market, government and financial sector. In recent years, the rapid changes in geopolitical and economic conditions have made it more pressing for enterprises to closely monitor policy and market movement. In addition, changes in the economic policies, industrial policies, regional development policies and regulations in Mainland China, as the main operating base of the Group, will affect the operating environment of the Company and the risk appetite of financial institutions, which will create uncertainties in the financing and lending activities of the Group and hinder fund allocation and business development.

The support from the government and the financial sector has played a key role in the Group's ongoing operations, so the Group's business strategy has been operating in line with the updates and changes in national policies and the changes in domestic business models. At present, the Group is benefiting from the national policy of promoting the economic development of private enterprises in recent years and its support to the B2B field. The Group will prepare for the potential regulation and policy direction of domestic trade, internet, e-commerce and financial development in the future and make forward-looking planning. In addition, the Group has made good use of diversified financing channels to increase financing efficiency, and will continue to improve its financial planning to achieve a better asset structure and cash flow, in order to form a closer partnership with financial institutions.

4. Diversified business management

In recent years, the Group has expanded its business in different forms and has cooperated with more institutions with strong capabilities and market positions to form different online trading platforms in China and overseas, such as CIC and Zall Steel, with an aim to provide customers with more diversified and international trading services by leveraging the experience and advantages of both parties in different business fields and regions. However, in respect of the diversified business management, due to the different management models, unclear ownership and control and different risk appetites of the teams of both parties, the Company may not be able to effectively coordinate the resources of the team to maximize its business advantages, which will lower the operational efficiency and profitability and affect the international image of the Company and the teams of both parties.

For the diversified business management, the Company has established clear planning and management principles to manage and control operational risks. Prior to the cooperation, the Company will, by collecting market information and conducting detailed analysis and due diligence on the partners, select the partners that fit into the future development direction of the Company in terms of business nature, scale and strategy, so as to reduce the possibility of conflict of business objectives. In addition, the Company will set up dedicated teams at the local sites and headquarter and assign governance personnel who are familiar with the region and industry to quickly integrate into its management environment. The Company will also properly cooperate with the business decisions of the partner team and provide support and assistance as much as possible to meet its development needs and achieve a win-win situation for all parties.

5. Business scope

At present, the internet business ecosystem of Zall Smart Commerce has been formed. Through the development of the broad and deep B2B platform trading business, the Group will gradually reduce the development proportion of traditional real estate business, and instead of focusing on the interactive integration of online and offline business. In the process of transformation, business restructuring and strategic mergers and acquisitions will be involved, thus restructuring the income portfolio and investing in new business areas. If the Company fails to accurately assess the market environment, the Company's resources and new business potential, or fails to timely rectify the new and old businesses that fail to meet the expectations, it will greatly drag the pace of transformation of the Company, and it will be difficult to stand out in the fierce market competition, which will affect investors' confidence.

The Group is now progressing on a clear path of development and will continue to build a sizable internet platform matrix in the future to expand its market share. The Group will start from related business when expanding its business scope and extend to other fields in phases to ensure that the development scope and speed are manageable. The Group also adopts various risk sharing measures, including changing from acquiring a wholly-owned business to diversified business management, and retaining the original professional operation teams of the subsidiaries. In addition, the Company has made comprehensive planning on the prospects, positioning, layout and division of labour of each business segment, and will strictly review the actual performance of the business and the market conditions, and make adjustment when appropriate to reduce overall risks, grasp opportunities and achieve higher and quality development results.

CORPORATE GOVERNANCE REPORT

DEED OF NON-COMPETITION

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

The independent non-executive Directors have reviewed and were satisfied that each of the controlling shareholders of the Company has complied with the Deed of Non-Competition for the year ended 31 December 2019.

As further set out in the circular of the Company dated 31 December 2014 (the "Restructuring Circular"), the Group previously carried out certain restructuring of its businesses (the "Restructuring") to, among others, dispose of certain of its non-core businesses to its controlling shareholders. After the Restructuring and until the Group has disposed of or realised all its remaining non-core property projects, the business owned/controlled by the controlling shareholders may overlap with the business of the Group in terms of business nature (but not necessarily in direct competition). As such, a revised deed of non-competition dated 30 June 2015 (superseding the original deed of non-competition dated 20 June 2011) was entered into by the Company's controlling shareholders in favour of the Company (as superseded, the "Deed of Non-Competition"), pursuant to which each of the controlling shareholders of the Company has undertaken to the Company that he/she/it will not and will procure that his/her/its associates (other than members of the Group) not to, engage in any of the Group's businesses including (without limitation), developing and operating large-scale, consumer product focused wholesale shopping malls in China. As at 31 December 2019, except North Hankou Zall Life City – Phase II, all of the Remaining Non-core Projects (as defined in the Restructuring Circular) have been disposed. North Hankou Zall Life City – Phase II is a residential project with gross floor area of approximately 207,000 square meters in North Hankou region. As satisfiable profit and cash flow could be generated from this project, the Group has hold back the project and sold part of it based on the market circumstances. As at 31 December 2019, approximately 118,000 square meters were sold and the construction is expected to be completed in 2020.

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

DIVIDEND POLICY

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

COMPANY SECRETARY

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

Ms. Foo Man Yee Carina of CS Legend Corporate Services Limited, an external services provider, has been appointed as the Company Secretary since from July 2018. Her primary contact person at the Company is Mr. Zhu Guo Hui, the chief financial officer of the Company.

During the year ended 31 December 2019, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

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

SHAREHOLDER RIGHTS

Convening an extraordinary general meeting by shareholders

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

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

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

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

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

Making enquiry to the Board

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Investors Communication Policy

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

Shareholders, investors and the media can make enquiries or putting forward proposals to the Company through the following means:

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

CONSTITUTIONAL DOCUMENTS

The Company has not made any changes to its constitutional documents for the year ended 31 December 2019.

INDEPENDENT AUDITOR'S REPORT

KPMG

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

OPINION

We have audited the consolidated financial statements of Zall Smart Commerce Group Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 63 to 192, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS OF OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which indicates that the Group had net current liabilities of RMB2,405,018,000 as at 31 December 2019. As explained in note 1(b) to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and financial institutions and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Assessing potential impairment of goodwill

Refer to note 13 to the consolidated financial statements and the accounting policies on page 79 and page 88.

The Key Audit Matter	How the matter was addressed in our audit
As of 31 December 2019, the carrying amount of goodwill, which mainly arose from the acquisition of Shenzhen Sinoagri E-commerce Co., Ltd. in 2017 and HSH International Inc. in 2018, were RMB991 million, representing 5% of the Group's net assets at that date. Management assesses potential impairment of goodwill on an annual basis. The impairment assessment of goodwill is carried out by management based on independent valuations of the respective cash generating units ("CGUs") prepared by a firm of qualified external valuers. The values of CGUs are estimated based on the respective discounted cash flow forecasts prepared by the management. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement in particular in determining the key assumptions adopted, which include sales volumes, sales prices and the gross profit ratio and in calculating the discount rate applied.	Our audit procedures to assess potential impairment of goodwill included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls over preparation of the discounted cash flow forecasts on which the estimation of the recoverable amount of goodwill are based; • obtaining and inspecting the valuation report prepared by the external valuers engaged by the Group on which the management's assessments of impairment of goodwill were based; • assessing the external valuers' qualifications, experience and expertise and considering their objectivity and independence; • assessing and challenging the Group's identification of CGUs and the allocation of goodwill and other assets to those CGUs with reference to the requirements of the prevailing accounting standards;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Assessing potential impairment of goodwill (continued)

Refer to note 13 to the consolidated financial statements and the accounting policies on page 79 and page 88. (continued)

The Key Audit Matter (continued)

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

How the matter was addressed in our audit (continued)

- with the assistance of our internal valuation specialists, evaluating the methodology used in the valuations of CGUs, challenging the key assumptions and critical judgements made in the preparation of the discounted cash flow forecasts prepared by management by comparing key inputs, which included sales volumes, sales prices and the gross profit ratio, with historical performance, management's budgets and forecasts and other external available information, and evaluating the discount rate applied in the discounted cash flow forecasts by assessing if the parameters adopted in calculating the discount rate was within the range of those adopted by other companies in the same industry and with similar risk profile;

- obtaining management's sensitivity analyses for the key assumptions, including sales volumes, sales prices, the gross profit ratio and the discount rate, adopted in the preparation of the discounted cash flow forecasts and assessing the impact of changes in the key assumptions on the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias;

- performing a retrospective review by comparing the prior year's forecasts with the current year's results to assess the historical accuracy of management's forecasting process and if any management bias; and

- assessing the disclosures in the consolidated financial statements in respect of the assessment of potential impairment of goodwill with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

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

Refer to note 19 to the consolidated financial statements and the accounting policies on page 90.

The Key Audit Matter

As at 31 December 2019, the Group owned properties under development for sale and completed properties held for sale located in the People's Republic of China ("PRC") with an aggregate carrying amount of RMB5,496 million, which represented 9% of the Group's total assets at that date. These properties comprise retails units and residential apartments located in the cities of Wuhan, Tianjin, Changsha and Jingzhou.

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

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

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

How the matter was addressed in our audit

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Valuation of investment properties

Refer to note 10 to the consolidated financial statements and the accounting policies on page 81.

The Key Audit Matter

The Group holds a portfolio of investment properties, including completed investment properties and investment properties under development located in PRC with a carrying value of RMB29,169 million which accounted for 47% of the Group's total assets as at 31 December 2019. These properties comprise logistic units, e-commerce malls and wholesale shopping malls.

The fair values of investment properties as at 31 December 2019 were assessed by the directors based on valuations prepared by a firm of qualified external property valuers. The net changes in fair value of investment properties recorded in the consolidated statement of profit or loss represented 369% of the Group's profit before taxation for the year ended 31 December 2019.

We identified valuation of the Group's investment properties as a key audit matter because of the significance of investment properties to the Group's total assets and the significance of changes in fair value of investment properties to the Group's profit before taxation and because the valuation of investment properties can be inherently subjective and requires significant management judgement and estimation which increases the risk of error or potential management bias, particularly given the number and the diverse nature and location of the investment properties held by the Group.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of investment properties included the following:

- obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties was based;
- assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence;
- with the assistance of our internal property valuation specialists, discussing with the external property valuers, without the presence of management, their valuation methodology and challenging the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with available market data;
- conducting site visits to investment properties under development, on a sample basis, to observe the development progress and challenging management's development budgets reflected in the valuations with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Loss allowance for loans and factoring receivables

Refer to note 21(b) to the consolidated financial statements and the accounting policies on page 85.

The Key Audit Matter

As of 31 December 2019, the carrying amount of loans and factoring receivables were RMB1,409 million, representing 2% of the Group's total assets at that date.

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

How the matter was addressed in our audit

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

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and factoring receivables, the identification of the three stages of the ECL model and the measurement of provisions for impairment;
- with the assistance of our internal specialists, assessing the reliability of the expected credit loss model used by management in determining allowances for impairment losses, and the appropriateness of the key parameters and assumptions in the expected credit loss model, which includes the identification of credit-impaired stage, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other management adjustments;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Loss allowance for loans and factoring receivables (continued)

Refer to note 21(b) to the consolidated financial statements and the accounting policies on page 85. (continued)

The Key Audit Matter (continued)

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

How the matter was addressed in our audit (continued)

- assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model:

  ➢ for key parameters derived from internal data relating to loans and factoring agreements, we selected samples and compared individual loans and factoring receivables information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loans and factoring receivables list.

  ➢ for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Loss allowance for loans and factoring receivables (continued)

Refer to note 21(b) to the consolidated financial statements and the accounting policies on page 85. (continued)

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Revenue	3(a)	**72,898,756**	56,116,072
Cost of sales		**(71,673,845)**	(54,556,472)
Gross profit		**1,224,911**	1,559,600
Other net loss	4	**(756,289)**	(530,495)
Selling and distribution expenses		**(197,009)**	(213,657)
Administrative and other expenses		**(662,097)**	(760,769)
Impairment loss on trade and other receivables	5(c)	**(246,229)**	(265,422)
Impairment loss on intangible assets	12	**(20,300)**	(152,824)
Impairment loss on goodwill	13	**(258,327)**	(461,028)
Loss from operations before changes in fair value of investment properties		**(915,340)**	(824,595)
Net valuation gain on investment properties	10	**2,533,075**	3,865,192
Profit from operations		**1,617,735**	3,040,597
Finance income	5(a)	**175,443**	206,000
Finance costs	5(a)	**(1,112,535)**	(697,151)
Share of net profits/(losses) of associates	15	**8,313**	(172,873)
Share of net losses of joint ventures	16	**(1,895)**	(2,343)
Impairment loss on investment in an associate		**–**	(26,155)
Profit before taxation	5	**687,061**	2,348,075
Income tax	6(a)	**(629,542)**	(1,074,168)
Profit for the year		**57,519**	1,273,907
Attributable to:			
Equity shareholders of the Company		**92,797**	1,371,304
Non-controlling interests		**(35,278)**	(97,397)
Profit for the year		**57,519**	1,273,907
Earnings per share (RMB cents)			
Basic	9(a)	**0.79**	11.76
Diluted	9(b)	**0.79**	11.75

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 71 to 192 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(e).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Profit for the year		**57,519**	1,273,907
Other comprehensive income for the year (after tax and reclassification adjustments)			
Item that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycle)		**–**	(1,895)
Item that may be reclassified subsequently to profit or loss:			
Share of other comprehensive loss of an associate	15	**(1,450)**	–
Exchange differences on translation of:			
– financial statements of operations outside Mainland China		**8,220**	(20,793)
Other comprehensive income for the year		**6,770**	(22,688)
Total comprehensive income for the year		**64,289**	1,251,219
Attributable to:			
Equity shareholders of the Company		**98,237**	1,350,993
Non-controlling interests		**(33,948)**	(99,774)
Total comprehensive income for the year		**64,289**	1,251,219

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current assets			
Investment properties	10	29,168,628	25,456,399
Property, plant and equipment	11	331,515	314,300
Intangible assets	12	715,058	755,305
Goodwill	13	990,637	1,252,042
Interests in associates	15	460,936	467,588
Interests in joint ventures	16	24,279	25,519
Equity investments at fair value through other comprehensive income	17	8,702	8,702
Contract assets	20(a)	339,388	329,876
Deferred tax assets	29(b)	247,611	211,047
		32,286,754	28,820,778
Current assets			
Financial assets at fair value through profit or loss	18	4,794,964	4,785,355
Inventories	19	5,833,647	6,277,105
Prepaid taxes	29(a)	20,538	12,017
Trade and other receivables	21	11,733,935	8,604,425
Amounts due from related parties	34(c)	820,919	193,293
Fixed deposits with banks with original maturity over three months		30,014	203,287
Pledged bank deposits	22	4,680,345	3,066,232
Cash and cash equivalents	23	1,243,944	1,118,626
		29,158,306	24,260,340
Non-current assets held for sale	36	44,179	–
		29,202,485	24,260,340
Current liabilities			
Financial liabilities at fair value through profit or loss	18	315,674	142,327
Trade and other payables	24	13,609,439	11,006,540
Contract liabilities	20(b)	3,054,538	1,835,718
Lease liabilities	26	13,531	–
Amounts due to related parties	34(c)	95,072	956,391
Interest-bearing borrowings	25	14,017,079	9,255,114
Current taxation	29(a)	502,170	452,480
Deferred income		–	5,993
		31,607,503	23,654,563
Net current (liabilities)/assets		(2,405,018)	605,777
Total assets less current liabilities		29,881,736	29,426,555

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current liabilities			
Interest-bearing borrowings	25	4,473,534	4,970,830
Deferred income		8,612	2,879
Lease liabilities	26	12,190	–
Amounts due to related parties	34(c)	373,230	-
Financial liabilities at fair value through profit or loss	18	–	59,024
Deferred tax liabilities	29(b)	5,391,696	4,785,009
		10,259,262	9,817,742
NET ASSETS		19,622,474	19,608,813
CAPITAL AND RESERVES	30		
Share capital		32,733	32,437
Reserves		19,046,261	18,747,155
Total equity attributable to equity shareholders of the Company		19,078,994	18,779,592
Non-controlling interests		543,480	829,221
TOTAL EQUITY		19,622,474	19,608,813

Approved and authorised for issue by the board of directors on 29 April 2020.

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

Cui Jinfeng
Executive Director

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 71 to 192 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company												
		Share capital RMB'000	Share premium RMB'000	Shares held for various incentive plans RMB'000	PRC statutory reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Revaluation reserve RMB'000	Equity-settled share-based payment reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained profits (note) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		30(b)	30(c)(i)		30(c)(ii)	30(c)(v)	30(c)(iii)	30(c)(vi)	30(c)(iv)	30(c)(vii)				
Balance at 1 January 2018		32,292	4,362,842	(59,175)	437,413	194,467	(127,504)	36,946	122,484	(953)	12,546,904	17,545,716	871,526	18,417,242
Changes in equity for 2018:														
Profit for the year		–	–	–	–	–	–	–	–	–	1,371,304	1,371,304	(97,397)	1,273,907
Other comprehensive income		–	–	–	–	–	(18,416)	–	–	(1,895)	–	(20,311)	(2,377)	(22,688)
Total comprehensive income		–	–	–	–	–	(18,416)	–	–	(1,895)	1,371,304	1,350,993	(99,774)	1,251,219
Issue of shares for Incentive Shares		23	69,850	(69,873)	–	–	–	–	–	–	–	–	–	–
Issue of shares for VKC Consultancy Service Consideration Shares		93	279,381	(279,474)	–	–	–	–	–	–	–	–	–	–
Capital injection from non-controlling interest of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	38,740	38,740
Acquisition of non-controlling interest of subsidiaries		–	–	–	–	(14,504)	–	–	–	–	–	(14,504)	(142)	(14,646)
Appropriation to statutory reserve	30(c)(ii)	–	–	–	13,026	–	–	–	–	–	(13,026)	–	–	–
Dividends approved in respect of the previous year	30(e)	–	(246,653)	–	–	–	–	–	–	–	–	(246,653)	–	(246,653)
Dividends to non-controlling interests of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(13,302)	(13,302)
Equity-settled share-based payment for employee	28	6	9,055	11,835	–	(26,471)	–	–	50,962	–	–	45,387	26,795	72,182
Equity-settled share-based payment for non-employee	28	23	49,827	–	–	–	–	–	47,631	–	–	97,481	–	97,481
Acquisition of subsidiaries		–	–	–	–	1,172	–	–	–	–	–	1,172	12,138	13,310
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	(6,760)	(6,760)
Balance at 31 December 2018		32,437	4,524,302	(396,687)	450,439	154,664	(145,920)	36,946	221,077	(2,848)	13,905,182	18,779,592	829,221	19,608,813

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Expressed in Renminbi)

		Attributable to equity shareholders of the Company												
	Note	Share capital RMB'000 30(b)	Share premium RMB'000 30(c)(i)	Shares held for various incentive plans RMB'000	PRC statutory reserve RMB'000 30(c)(ii)	Other reserve RMB'000 30(c)(v)	Exchange reserve RMB'000 30(c)(iii)	Revaluation reserve RMB'000 30(c)(vi)	Equity-settled share-based payment reserve RMB'000 30(c)(iv)	Fair value reserve (non-recycling) RMB'000 30(c)(vii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019		32,437	4,524,302	(396,687)	450,439	154,664	(145,920)	36,946	221,077	(2,848)	13,905,182	18,779,592	829,221	19,608,813
Changes in equity for 2019:														
Profit for the year		-	-	-	-	-	-	-	-	-	92,797	92,797	(35,278)	57,519
Other comprehensive income:														
– Share of other comprehensive loss of an associate		-	-	-	-	-	(1,450)	-	-	-	-	(1,450)	-	(1,450)
– Exchange differences on translation of financial statements of operations outside Mainland China		-	-	-	-	-	6,890	-	-	-	-	6,890	1,330	8,220
Total comprehensive income		-	-	-	-	-	5,440	-	-	-	92,797	98,237	(33,948)	64,289
Acquisition of non-controlling interest of subsidiaries	30(b)(i)	296	172,066	-	-	(5,614)	-	-	-	-	-	166,748	(229,147)	(62,399)
Appropriation to statutory reserve	30(c)(ii)	-	-	-	60,916	-	-	-	-	-	(60,916)	-	-	-
Dividends to non-controlling interests of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	(6,237)	(6,237)
Equity-settled share-based payment for employee	28	-	(35,932)	78,183	-	3,067	-	-	(38,407)	-	-	6,911	(3,157)	3,754
Equity-settled share-based payment for non-employee	28	-	(21,733)	69,869	-	-	-	-	(20,211)	-	-	27,925	-	27,925
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	222	222
Disposal of subsidiaries		-	-	-	(3,129)	(419)	-	-	-	-	3,129	(419)	(13,474)	(13,893)
Balance at 31 December 2019		32,733	4,638,703	(248,635)	508,226	151,698	(140,480)	36,946	162,459	(2,848)	13,940,192	19,078,994	543,480	19,622,474

The notes on pages 71 to 192 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Operating activities			
Cash generated from/(used in) operations	23(b)	**144,126**	(367,497)
Income tax paid		**(30,910)**	(48,441)
Net cash generated from/(used in) operating activities		**113,216**	(415,938)
Investing activities			
Payment for the purchase of property, plant and equipment and investment properties		**(118,629)**	(151,971)
Payment for the purchase of intangible assets		**(59,123)**	(28,846)
Proceeds from disposal of property, plant and equipment		**1,671**	1,308
Proceeds from disposal of investment properties		**9,609**	–
Placement of fixed deposits at banks with original maturity over three months		**(30,014)**	(193,287)
Maturity of fixed deposits at banks with original maturity over three months		**203,287**	122,602
Interest received		**163,909**	152,071
Cash paid for acquisition of subsidiaries		**(30,345)**	(118,744)
Net proceeds from disposal of subsidiaries		**201,717**	–
Payment for investment in associates		**(9,000)**	(156,198)
Payment for investment in joint ventures		**(1,160)**	–
Net proceeds from liquidation of a joint venture		**505**	–
Dividends received from financial assets at fair value through profit or loss	4	**–**	10,922
Purchase of wealth management products and trust products		**(4,147,701)**	(4,220,358)
Proceeds from disposal of listed equity securities		**3,975**	196,142
Cash receipt from maturity of wealth management products and trust products		**3,457,720**	3,637,286
Payment for acquisition of non-controlling interest of a subsidiary		**(277,000)**	–
Advance to related parties		**(3,610,220)**	(1,185,960)
Repayment from related parties		**2,802,175**	1,056,770
Net cash used in investing activities		**(1,438,624)**	(878,263)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Financing activities			
Capital element of lease rentals paid	23(c)	(14,123)	–
Advance from related parties	23(c)	371,295	831,753
Repayment to related parties	23(c)	(543,648)	(448,535)
Proceeds from new bank loans and loans from other financial institutions	23(c)	9,920,876	6,451,594
Repayment of bank loans and loans from other financial institutions	23(c)	(8,233,736)	(5,747,415)
Proceeds from other loans	23(c)	12,264,548	3,091,628
Repayment of other loans	23(c)	(9,627,261)	(1,415,191)
Increase in pledged bank deposits		(1,615,615)	(512,274)
Interest and other borrowing costs paid		(1,066,802)	(641,177)
Interest element of lease rentals paid	23(c)	(1,241)	–
Dividend paid	30(e)	–	(246,653)
Dividend paid to non-controlling interests of subsidiaries		(6,237)	(13,302)
Net proceeds from disposal of subsidiaries		–	14,651
Proceeds from capital injection from non-controlling interests		–	38,740
Settlement of a future contract		–	(268,089)
Redemption of convertible redeemable preference shares of a subsidiary		–	(12,554)
Net cash generated from financing activities		1,448,056	1,123,176
Net increase/(decrease) in cash and cash equivalents		122,648	(171,025)
Cash and cash equivalents at 1 January	23(a)	1,118,626	1,283,647
Effect of foreign exchange rate changes		2,670	6,004
Cash and cash equivalents at 31 December	23(a)	1,243,944	1,118,626

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 71 to 192 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise Zall Smart Commerce Group Ltd. (the "Company") and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

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

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

– investment properties, including interests in leasehold land and buildings held as investment property where the Group is the registered owner of the property interest (see note 1(i));

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

– contingent considerations recognised in business combinations (see note 1(d)); and

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

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(bb)).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

As at 31 December 2019, the Group had net current liabilities of RMB2,405,018,000 (31 December 2018: net current assets of RMB605,777,000). The Group is dependent upon the financial support from the Group's bankers and financial institutions and its ability to generate sufficient cash flows from future operations to cover its operating costs and to meet its financing commitments, which may indicate the existence of a material uncertainty on the Group's ability to continue as a going concern.

The Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing the Group's ability to continue as a going concern for at least the next twelve months from the end of the reporting period and to meet its repayment obligations, as and when they fall due. Certain measures have been and are being taken to manage its liquidity needs and to improve its financial position which include the following:

– the Group expects to continue to generate positive operating cash flows for the next twelve months by implementing various strategies to improve the Group's income from sales of properties, supply chain management and trading business and rentals from investment properties to generate additional operating cash inflows and putting extra efforts on the collection of trade debtors to improve the debtor turnover days;

– the Group is actively and regularly reviewing its capital structure and will consider raising additional capital by issuing bonds or new shares, where appropriate.

In addition, as disclosed in note 25 and note 31(b), bank loans and loans from other financial institutions of RMB10,195,942,000 were guaranteed and/or secured by certain investment properties, investment properties under development, properties under development for sale, completed properties held for sale and other assets of the Group at 31 December 2019. The Group considered it has sufficient collateral to support the roll-over or refinancing of such banking facilities when they fall due. In making this assessment, the Group has considered, among other things, the nature, the value and the volatility of value of its overall property portfolio, including those properties that are currently not pledged.

If the above measures are successful, the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period. Consequently, the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments that would result should the Group be unable to operate as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

a *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

b Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 32(a). For an explanation of how the Group applies lessee accounting, see note 1(l)(i).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 32(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	35,745
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(9,155)
Less: total future interest expenses	(1,708)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and total lease liabilities recognised at 1 January 2019	24,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

b Lessee accounting and transitional impact (continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	**Capitalisation of operating lease contracts** RMB'000	**Carrying amount at 1 January 2019** RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	314,300	25,875	340,175
Total non-current assets	28,820,778	25,875	28,846,653
Trade and other receivables	8,604,425	(1,240)	8,603,185
Total current assets	24,260,340	(1,240)	24,259,100
Trade and other payables	11,006,540	(247)	11,006,293
Lease liabilities (current)	–	9,623	9,623
Current liabilities	23,654,563	9,376	23,663,939
Net current assets	605,777	(10,616)	595,161
Total assets less current liabilities	29,426,555	15,259	29,441,814
Lease liabilities (non-current)	–	15,259	15,259
Total non-current liabilities	9,817,742	15,259	9,833,001
Net assets	19,608,813	–	19,608,813

c Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 23(c)). 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. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement (see note 23(d)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

c Impact on the financial result, segment results and cash flows of the Group (continued)

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating lease as if under IAS 17 (Note1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	1,617,735	14,438	15,364	1,616,809	3,040,597
finance costs	(1,112,535)	1,241	–	(1,111,294)	(697,151)
Profit before taxation	687,061	15,679	15,364	687,376	2,348,075
Profit for the year	57,519	15,679	15,364	57,834	1,273,907
Reportable segment profit/(loss) for year ended 31 December 2019 (note 3(b)) impacted by the adoption of IFRS 16:					
– Property development and related services	323,706	805	70	324,441	626,544
– E-commerce and financial services	3,833	–	–	3,833	(98,032)
– Supply chain management and trading	(134,886)	12,918	12,216	(134,184)	(67,680)
Total	192,653	13,723	12,286	194,090	460,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

c *Impact on the financial result, segment results and cash flows of the Group (continued)*

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Note 1&2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from/(used in) operations	49,084	(15,364)	33,720	(367,497)
Net cash generated from/(used in) operating activities	18,174	(15,364)	2,810	(415,938)
Capital element of lease rentals paid	(14,123)	14,123	–	–
Interest element of lease rentals paid	(1,241)	1,241	–	–
Net cash generated from financing activities	1,448,056	15,364	1,463,420	1,123,176

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there was no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

d *Leasehold investment property*

Under IFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of IFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply IAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

e *Lessor accounting*

In addition to leasing out the investment property referred to in paragraph d above, the Group leases out a number of items of properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(e)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates and joint ventures

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

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

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

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit loss model ("ECL model") to such other long-term interests where applicable (see note 1(m)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss.

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

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 31(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

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

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

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

(ii) Equity investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Derivative financial instruments

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

(i) Investment properties

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

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

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 1(l)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 1(l).

(j) Property, plant and equipment

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

– interests in leasehold land and buildings hold for own use where the Group is the registered owner of the property interest (see note 1(l));

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 1(l)).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Property, plant and equipment (continued)

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

– The Group's interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired terms of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion.

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

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

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

(k) Intangible asset (other than goodwill)

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

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

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

Both the period and method of amortisation are reviewed annually.

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

(l) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leased assets (continued)

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(j) and 1(m)(iii)), except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment properties are carried at fair value in accordance with note 1(i); and

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 1(n).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leased assets (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

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

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

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

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

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(y)(iv).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 1(l)(i), then the Group classifies the sub-lease as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Credit losses and impairment of assets

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

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

- financial assets measured at amortised cost (including cash and cash equivalents, fixed deposits with banks with original maturity over three months, pledged bank deposits, trade and other receivables and amounts due from related parties);
- contract assets as defined in IFRS 15 (see note 1(o));
- lease receivables; and
- financial guarantee contracts issued (see note 1(m)(ii)).

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

Measurement of ECLs

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

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

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivables.

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Measurement of ECLs (continued)

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

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

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

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

Write-off policy

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

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

(ii) Credit losses from financial guarantees issued

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

(iii) Impairment of other non-current assets

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

– property, plant and equipment, including right-of-use assets;

– intangible assets;

– goodwill; and

– investment in subsidiaries, associates and joint ventures.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iv) Interim financial reporting and impairment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Inventories

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

– Supply chain management and trading

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

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

– Property development

Cost and net realisable values are determined as follows:

– Property under development for sale

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

– Completed property held for sale

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Contract assets and contract liabilities

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

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

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

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

(p) Trade and other receivables

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

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

(q) Cash and cash equivalents

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

(r) Trade and other payables

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

(s) Convertible redeemable preference shares

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

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

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

The convertible redeemable preference shares are classified as current liabilities because the Group did not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Interest-bearing borrowings

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

(u) Employee benefits

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

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

(v) Share-based payments

Equity-settled share-based payment transaction with employee

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

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

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

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

(w) Income tax

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Income tax (continued)

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

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

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

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

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

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Provisions and contingent liabilities

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

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

(y) Revenue and other income

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

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

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

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

(i) Sale of goods

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

(ii) Sale of properties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Revenue and other income (continued)

(iii) Construction contracts

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

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

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

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

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

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(v) Dividends

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

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

(vi) Interest income

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

(vii) Government grants

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Revenue and other income (continued)

(viii) Income from financial guarantees issued

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

(ix) Service income

Service income in relation to logistics service, warehousing service, procurement service and other related ancillary services are recognised when such services are provided to customers.

(z) Translation of foreign currencies

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

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

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

(aa) Borrowing costs

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

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

(bb) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, the non-current asset is not depreciated or amortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

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

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

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

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

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

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

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

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

(dd) Segment reporting

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Notes 10, 13, 28 and 31 contain information about the assumptions and their risk factors relating to the valuation of investment properties, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(c) Impairment of trade and other receivables

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

Trade debtors and bills receivables

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

Loans and factoring receivables

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

(d) Recognition of deferred tax assets

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(g) Valuation of investment properties

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

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

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

(h) Determining the deferred taxation on investment properties

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

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

In this connection, the Group has reviewed its investment property portfolio on a regular basis and has concluded that as at 31 December 2019, the Group has determined that each of these properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time and consequently the presumption in IAS 12 is rebutted for these properties. As a result, the Group has continued to measure the deferred tax relating to these other properties using the tax rate that would apply as a result of recovering their value through use.

(i) Impairment of non-current assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

(i) Disaggregation of revenue

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

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS 15:		
Disaggregated by major products or service lines		
– Revenue from sales of properties and related services	127,363	682,848
– Revenue from supply chain management and trading business	71,748,471	54,089,362
– Revenue from E-commerce and financial services business	9,741	106,055
– Revenue from construction contracts	9,512	5,014
– Others	9,196	31,340
	71,904,283	54,914,619
Revenue from other sources		
Gross rentals from investment properties		
– Lease payments that are fixed	769,097	740,888
Financing income	160,886	317,205
Others	64,490	143,360
	72,898,756	56,116,072

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(a) Revenue (continued)

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

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB767,646,000 (2018: RMB857,754,000). This amount represents revenue expected to be recognised in the future from pre-completion sales contracts for properties under development and construction contracts entered into by the customers with the Group. This amount includes the interest component of pre-completion properties sales contracts under which the Group obtains significant financing benefits from the customers (see note 1(y)(ii)). The Group will recognise the expected revenue in future when or as the work is completed or, in the case of the properties under development for sale, when the properties are accepted by the customer or deemed as accepted according to the contract (whichever is earlier), which is expected to occur over the next 1 to 24 months (2018: next 1 to 24 months).

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

(b) Segment reporting

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	Property development and related services		E-commerce and financial services		Supply chain management and trading		Total	
	2019 RMB'000	2018 (Note) RMB'000	2019 RMB'000	2018 (Note) RMB'000	2019 RMB'000	2018 (Note) RMB'000	2019 RMB'000	2018 (Note) RMB'000
Disaggregation by timing of revenue recognition								
Point in time	72,510	613,637	–	106,055	71,571,635	54,089,362	71,644,145	54,809,054
Over time	897,952	958,473	31,779	58,285	315,684	258,920	1,245,415	1,275,678
Revenue from external customers	970,462	1,572,110	31,779	164,340	71,887,319	54,348,282	72,889,560	56,084,732
Inter-segment revenue	–	–	–	–	–	–	–	–
Reportable segment revenue	970,462	1,572,110	31,779	164,340	71,887,319	54,348,282	72,889,560	56,084,732
Reportable segment profit/(loss)	323,706	626,544	3,833	(98,032)	(134,886)	(67,680)	192,653	460,832
Net valuation gain on investment properties	2,533,075	3,865,192	–	–	–	–	2,533,075	3,865,192
Finance income	1,046	61,620	74	393	174,318	140,143	175,438	202,156
Finance costs	(555,722)	(300,825)	(2,968)	(3,846)	(424,512)	(305,883)	(983,202)	(610,554)
Depreciation and amortisation	(13,852)	(12,190)	(339)	(1,671)	(39,776)	(57,798)	(53,967)	(71,659)
Share of net (losses)/profits of associates	–	(169)	9,465	(164,108)	(1,152)	(8,596)	8,313	(172,873)
Share of net (losses)/profits of joint ventures	(495)	(2,694)	–	–	(1,400)	351	(1,895)	(2,343)
Impairment loss on investment in an associate	–	–	–	(26,155)	–	–	–	(26,155)
Reportable segment assets	38,209,729	32,504,601	534,420	813,235	21,088,026	16,588,661	59,832,175	49,906,497
Additions to non-current segment assets during the year	7,737	13,203	10,128	157,423	72,304	231,919	90,169	402,545
Reportable segment liabilities	12,777,839	11,872,360	368,090	1,735,536	20,668,400	14,049,617	33,814,329	27,657,513

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Revenue

	2019 RMB'000	2018 RMB'000
Reportable segment revenue	72,889,560	56,084,732
Other revenue	9,196	31,340
Consolidated revenue (note 3(a))	72,898,756	56,116,072

Profit

	2019 RMB'000	2018 (Note) RMB'000
Reportable segment profit derived from the Group's external customers	192,653	460,832
Other net loss	(756,289)	(530,495)
Net valuation gain on investment properties	2,533,075	3,865,192
Finance income	175,443	206,000
Finance costs	(1,112,535)	(697,151)
Share of net profits/(losses) of associates	8,313	(172,873)
Share of net losses of joint ventures	(1,895)	(2,343)
Impairment loss on investment in an associate	–	(26,155)
Unallocated head office and corporate expenses	(351,704)	(754,932)
Consolidated profit before taxation	687,061	2,348,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Assets

	2019 RMB'000	2018 (Note) RMB'000
Reportable segment assets	59,832,175	49,906,497
Elimination of inter-segment receivables	(1,328,416)	(818,168)
	58,503,759	49,088,329
Interests in joint ventures	24,279	25,519
Interests in associates	460,936	467,588
Deferred tax assets	247,611	211,047
Prepaid taxes	20,538	12,017
Non-current assets held for sale	44,179	–
Unallocated head office and corporate assets	2,187,937	3,276,618
Consolidated total assets	61,489,239	53,081,118

Liabilities

	2019 RMB'000	2018 (Note) RMB'000
Reportable segment liabilities	33,814,329	27,657,513
Elimination of inter-segment payables	(1,328,416)	(1,887,221)
	32,485,913	25,770,292
Current taxation	502,170	452,480
Deferred tax liabilities	5,391,696	4,785,009
Unallocated head office and corporate liabilities	3,486,986	2,464,524
Consolidated total liabilities	41,866,765	33,472,305

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated in this regard. See note 1(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(iii) Geographic information

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

	Revenue from external customers		Specified non-current assets	
	2019	2018	31 December 2019	31 December 2018 (Note)
	RMB'000	RMB'000	RMB'000	RMB'000
PRC	70,074,543	55,294,887	31,683,293	28,268,170
Singapore	2,576,332	821,185	7,760	2,983
Others	247,881	–	–	–
	72,898,756	56,116,072	31,691,053	28,271,153

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

4 OTHER NET LOSS

	2019 RMB'000	2018 RMB'000
Net fair value changes on financial instruments at fair value through profit or loss		
– listed equity securities	(812,810)	(879,148)
– wealth management products and trust products	136,205	101,498
– derivative financial instruments (Note 35(a))	124,328	23
– contingent consideration (Notes 18(ii) and 18(iii))	(165,722)	251,298
– convertible redeemable preference shares of a subsidiary (Note 18(iv))	37,717	14,049
Net loss on the dilution of interests in associates*	(63,625)	–
Loss on disposal of listed equity securities	(61,705)	(80,274)
Government subsidies	43,587	37,959
Dividends received from financial assets at fair value through profit or loss	–	10,922
Loss on disposal of investment properties	(5,668)	–
Net gain on disposal of subsidiaries	5,357	3,692
Others	6,047	9,486
	(756,289)	(530,495)

* Net loss on the dilution of interests in associates including loss on the dilution of interests in LightInTheBox Holding Co., Ltd. ("LightInTheBox") of RMB72,207,000 (note 15) and gain on the dilution of interests in Ningbo Haishangxian Information Technology Limited ("Ningbo Haishangxian ") of RMB8,582,000, which were mainly due to new interests being issued by LightInTheBox and Ningbo Haishangxian to other parties during 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

(a) Finance (income)/costs

	2019 RMB'000	2018 (Note) RMB'000
Finance income		
Interest income	(175,443)	(206,000)
Finance costs		
Interest on interest-bearing borrowings	909,555	793,701
Interest on lease liabilities (note 23(c))	1,241	–
Other borrowing costs	12,764	12,177
Less: Amounts capitalised into properties under development and investment properties under development*	(113,759)	(261,010)
	809,801	544,868
Bank charges and others	297,295	153,428
Net foreign exchange loss/(gain)	5,439	(1,145)
	1,112,535	697,151

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

* The borrowing costs have been capitalised at rates ranging from 4.75% – 12.20% per annum for the year ended 31 December 2019 (2018: 4.75% – 13.00%).

(b) Staff costs

	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits	268,551	258,695
Contributions to defined contribution retirement plan	30,056	24,728
Equity-settled share-based payment expenses (note 28)	3,858	72,056
	302,465	355,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION (continued)

(c) Other items

	2019 RMB'000	2018 RMB'000
Amortisation		
– intangible assets (note 12)	**58,270**	60,557
Depreciation (note 11)		
– owned property, plant and equipment*	**31,139**	38,959
– right-of-use assets*	**14,438**	–
Impairment losses		
– trade debtors and bill receivables (note 31(a))	**201,237**	187,878
– loans and factoring receivables (note 31(a))	**44,992**	77,544
Auditors' remuneration		
– audit services	**5,150**	4,900
Total minimum lease payments for leases previously classified as operating leases under IAS 17*	**–**	44,934
Research and development costs (other than amortisation costs)	**54,402**	26,498
Rentals receivable from investment properties less direct outgoings of RMB14,317,000 (2018: RMB21,341,000)	**754,780**	719,547
Cost of construction contracts	**9,512**	5,014
Cost of commodities sold (note 19(c)(ii))	**71,459,292**	53,779,019
Cost of properties sold (note 19(b))	**51,878**	382,542

* The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2019 RMB'000	2018 RMB'000
Current tax		
PRC Corporate Income Tax ("PRC CIT")	**78,720**	145,166
PRC Land Appreciate Tax ("PRC LAT")	**1,998**	60,795
	80,718	205,961
Deferred tax		
Origination and reversal of temporary differences (note 29(b))	**548,824**	868,207
	629,542	1,074,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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

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

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

(ii) No provision for Hong Kong Profits Tax or Singapore Corporate Income Tax as the Group did not earn any assessable income subject to Hong Kong Profits Tax or Singapore Corporate Income Tax during the years ended 31 December 2019 and 2018.

(iii) Pursuant to the rules and regulations applicable to encouraged industries in the PRC western development strategy, one subsidiary of the Group, GSMN Logistics Co., Ltd., is subject to PRC CIT at a preferential tax rate of 15% for the year ended 31 December 2019, and one subsidiary of the Group, Guangxi Sugar Market Network Co., Ltd., is subject to PRC CIT at a preferential tax rate of 9% for the year ended 31 December 2019. Pursuant to the rules and regulations applicable to advanced technology enterprises of the PRC, two subsidiaries of the Group, Shenzhen AP88.com Agriculture Information Technology Limited and Zallsoon information Technology (Wuhan) Co., Ltd, are subject to PRC CIT at a preferential tax rate of 15% for the year ended 31 December 2019. The application of preferential tax rate will be reviewed by the tax authority annually.

All the other PRC subsidiaries of the Group are subject to income tax at 25% for the year ended 31 December 2019 under the PRC Corporate Income Tax Law which was enacted on 16 March 2007.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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

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

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

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

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	687,061	2,348,075
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	493,591	942,816
Tax effect of non-deductible expenses	12,561	19,348
Tax effect of non-taxable share of net losses of joint ventures and associates	3,509	5,350
Tax effect of non-taxable net income	(3,927)	(1,744)
Tax effect of unused tax losses not recognised	136,561	78,409
Tax effect of recognition of previously unused tax losses	–	(1,068)
Utilisation of previously unrecognised tax losses	(389)	(14,335)
PRC LAT in relation to properties sold	1,998	60,522
PRC LAT in relation to investment properties	(18,483)	–
Tax effect on PRC LAT	4,121	(15,130)
Actual tax expense	629,542	1,074,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS

Directors' emoluments are as follows:

	For the year ended 31 December 2019					
	Directors' fee RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Equity-settled share-based payment (Note) RMB'000	Total RMB'000
Co-Chairman and executive directors:						
Mr. Yan Zhi	1,147	1,806	18	2,971	–	2,971
Dr. Gang Yu	1,200	–	–	1,200	–	1,200
Executive directors:						
Mr. Wei Zhe	1,200	–	–	1,200	11,773	12,973
Mr. Qi Zhiping	600	1,511	85	2,196	(399)	1,797
Mr. Cui Jinfeng	430	–	–	430	–	430
Ms. Min Xueqin (appointed on 16 April 2019)	153	83	18	254	–	254
Independent non-executive directors:						
Mr. Cheung Kai Fai	269	–	–	269	–	269
Mr. Wu Ying	430	–	–	430	–	430
Mr. Zhu Zhengfu	430	–	–	430	–	430
	5,859	3,400	121	9,380	11,374	20,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS (continued)

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

Note: These represent the estimated value of share options and share award granted to the directors under the Company's Share Option, Management Share Award Scheme and Incentive Shares. The value of these share options and share award is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(v).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the report of the directors and note 28.

During the year, no amount was paid or payable by the Group to the directors or any of the 5 highest paid individuals set out in note 8 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year. For the basis of determining the emolument payable to the directors, please refer to the paragraph headed "Directors' Emoluments" in the Report of the Directors contained in this annual report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2018: two) individuals are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries, bonuses and other emoluments	**3,855**	3,512
Retirement scheme contributions	**85**	97
Equity-settled share-based payment expenses	**(399)**	–
	3,541	3,609

The emoluments of two (2018: two) individuals with the highest emoluments are within the following bands:

	2019 **Number of individuals**	2018 Number of individuals
HKD2,000,001–2,500,000	**2**	1
HKD1,000,001–2,000,000	**–**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB92,797,000 (2018: RMB1,367,182,000) and the weighted average of 11,696,778,000 ordinary shares (2018: 11,628,038,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares (basic)

	2019 '000	2018 '000
Issued ordinary shares at 1 January	**11,681,732**	11,628,005
Effect of shares issued under Management Shares Award Scheme but not yet vested	**(49,429)**	(8,059)
Effect of vested Incentive Shares	**1,443**	1,401
Effect of vested VKC Consultancy Service Consideration Shares	**5,770**	5,605
Effect of vested shares under Management Shares Award Scheme	**760**	1,086
Effect of issuance of new shares as consideration of acquisition of non-controlling interests of a subsidiary	**56,502**	–
Weighted average number of ordinary shares at 31 December	**11,696,778**	11,628,038

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB92,797,000 (2018: RMB1,370,482,000) and the weighted average number of ordinary shares of 11,729,015,000 shares (2018: 11,665,335,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019 '000	2018 '000
Weighted average number of ordinary shares at 31 December (basic)	**11,696,778**	11,628,038
Effect of deemed issue of Incentive Shares	**6,448**	7,667
Effect of deemed issue of VKC Consultancy Service Consideration Shares	**25,789**	29,630
Weighted average number of ordinary shares at 31 December (diluted)	**11,729,015**	11,665,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

10 INVESTMENT PROPERTIES

(a) Reconciliation of carrying amount

	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
At 1 January 2018	16,737,297	3,469,441	20,206,738
Additions	37,574	205,447	243,021
Transfer from completed properties held for sale	1,141,448	–	1,141,448
Fair value adjustments	3,697,611	167,581	3,865,192
At 31 December 2018	21,613,930	3,842,469	25,456,399
Representing:			
Cost	8,005,965	1,765,911	9,771,876
Fair value adjustments	13,607,965	2,076,558	15,684,523
	21,613,930	3,842,469	25,456,399
At 1 January 2019	**21,613,930**	**3,842,469**	**25,456,399**
Additions	**6,894**	**119,904**	**126,798**
Transfer from completed properties held for sale (note)	**929,251**	**–**	**929,251**
Transfer from properties under development for sale (note)	**–**	**138,382**	**138,382**
Disposals	**(15,277)**	**–**	**(15,277)**
Fair value adjustments	**2,021,637**	**511,438**	**2,533,075**
At 31 December 2019	**24,556,435**	**4,612,193**	**29,168,628**
Representing:			
Cost	**8,937,716**	**2,024,197**	**10,961,913**
Fair value adjustments	**15,618,719**	**2,587,996**	**18,206,715**
	24,556,435	**4,612,193**	**29,168,628**
Book value:			
At 31 December 2019	**24,556,435**	**4,612,193**	**29,168,628**
At 31 December 2018	21,613,930	3,842,469	25,456,399

Note: During the year ended 31 December 2019, the Group transferred certain completed properties held for sale and properties under development for sale to investment properties when there was an actual change in use from sale to earning rental income purpose, which were evidenced by commencement of operating lease as stipulated in the lease agreements entered into by the Group. Correspondingly, a fair value gain in profit or loss of RMB2,042,724,000 (2018: RMB3,971,127,000) upon transfer was recognised.

As at 31 December 2019, the Group's investment properties and investment properties under development with an aggregated carrying value of RMB22,122,984,000 and RMB98,965,000 (2018: RMB19,123,166,000 and nil) were pledged as collateral for the Group's interest-bearing borrowings and bills payables respectively (note 25 and 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

10 INVESTMENT PROPERTIES (continued)

(b) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value as at 31 December 2019 RMB'000	**Fair value measurements as at 31 December 2019 categorised into level 3 RMB'000**
Recurring fair value measurement		
– investment properties	**29,168,628**	**29,168,628**

	Fair value as at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into level 3 RMB'000
Recurring fair value measurement		
– investment properties	25,456,399	25,456,399

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2019. The valuations were carried out by an independent firm of surveyors, Jones Lang Lasalle Corporate Appraisal and Advisory Limited ("JLL"), who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

10 INVESTMENT PROPERTIES (continued)

(b) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
Completed investment properties	Income capitalisation method	Term Yield	4.5% (2018: 4.5%)
		Reversion Yield	50% (2018: 50%)
		Market monthly rental rate (RMB/sqm.)	23-120 (2018: 35–122)
		Occupancy rate	90% – 95% (2018: 90% – 95%)
Investment properties under development	Residual approach	Term Yield	5.0% – 5.5% (2018: 4.5% – 5.5%)
		Reversion Yield	5.5% – 6.0% (2018: 5.0% – 6.0%)
		Market monthly rental rate (RMB/sqm.)	34-68 (2018: 35–65)
		Occupancy rate	0% – 95% (2018: 0% – 95%)

The fair value of completed investment properties is generally derived using the income capitalisation method. This valuation method is based on the capitalisation of the income and reversionary potential income by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings within the subject properties and the estimated rental incremental observed in other comparable properties.

The fair value of investment properties under development is generally derived using the residual method assuming that it is newly completed in accordance with the development proposal in term of property use, respective saleable areas and construction schedule to establish the gross development value ("GDV") of the property. The total unexpended costs of the development including construction costs, professional fees and other associated expenditure, together with an allowance for interest expenses, and developer's profits are estimated and deducted. The resultant residual figures are then adjusted back to the valuation date to arrive at the fair value of the property concerned in its existing state.

Fair value adjustment of investment properties is recognised in the line of item "net valuation gain on investment properties" on the face of the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

10 INVESTMENT PROPERTIES (continued)

(c) Investment properties leased out under operating leases

The Group leases out its investment properties under operating leases. The leases typically run for an initial period of 1 to 20 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every 1 to 3 years to reflect market rentals. None of the leases includes variable lease payments.

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:

	2019 **RMB'000**	2018 RMB'000
Within 1 year	**1,061,093**	958,498
After 1 year but within 2 years	**732,896**	801,208
After 2 year but within 3 years	**641,838**	630,139
After 3 year but within 4 years	**594,986**	597,142
After 4 year but within 5 years	**566,823**	551,295
After 5 years	**1,984,946**	2,372,055
	5,582,582	5,910,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

	Ownership interests in leasehold land and buildings held for own use RMB'000	Other properties leased for own use RMB'000	Motor vehicles RMB'000	Furniture, office equipment and others RMB'000	Total RMB'000
Cost:					
At 1 January 2018	247,812	–	24,070	101,526	373,408
Additions	135,211	–	5,268	11,492	151,971
Addition through acquisition of subsidiaries	–	–	673	1,407	2,080
Disposals	(17,238)	–	(349)	(757)	(18,344)
At 31 December 2018	365,785	–	29,662	113,668	509,115
Impact on initial application of IFRS 16 (Note)	–	25,875	–	–	25,875
At 1 January 2019	**365,785**	**25,875**	**29,662**	**113,668**	**534,990**
Additions	**7,618**	**14,962**	**1,970**	**13,999**	**38,549**
Addition through acquisition of subsidiaries	**–**	**–**	**–**	**1,149**	**1,149**
Disposals	**(2,740)**	**–**	**(135)**	**(5,234)**	**(8,109)**
Disposals arising from disposal of subsidiaries	**(18,984)**	**–**	**(1,530)**	**(6,291)**	**(26,805)**
At 31 December 2019	**351,679**	**40,837**	**29,967**	**117,291**	**539,774**
Accumulated depreciation:					
At 1 January 2018	70,818	–	22,455	63,154	156,427
Charge for the year	24,204	–	3,617	11,138	38,959
Addition through acquisition of subsidiaries	–	–	521	1,151	1,672
Written back on disposals	(1,332)	–	(333)	(578)	(2,243)
At 31 December 2018/1 January 2019	**93,690**	**–**	**26,260**	**74,865**	**194,815**
Charge for the year	**18,419**	**14,438**	**1,715**	**11,005**	**45,577**
Addition through acquisition of subsidiaries	**–**	**–**	**–**	**297**	**297**
Written back on disposals	**–**	**–**	**(2,059)**	**(4,251)**	**(6,310)**
Disposals arising from disposal of subsidiaries	**(18,973)**	**–**	**(1,530)**	**(5,617)**	**(26,120)**
At 31 December 2019	**93,136**	**14,438**	**24,386**	**76,299**	**208,259**
Net book value:					
At 31 December 2019	**258,543**	**26,399**	**5,581**	**40,992**	**331,515**
At 31 December 2018	272,095	–	3,402	38,803	314,300

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. See note 1(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

The ownership certificates for certain buildings with net book value of RMB16,029,000 (2018: RMB15,145,000) have not been obtained. The directors are of the opinion that the Group are entitled to lawfully and validly occupy and use of the above mentioned buildings.

As at 31 December 2019, the Group's buildings with carrying value of RMB98,225,000 (2018: RMB116,653,000) were pledged as collateral for the Group's interest-bearing borrowings (note 25).

(a) Right-of-use assets

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset is as follows:

	Notes	**31 December 2019 RMB'000**	1 January 2019 RMB'000
Included in "Property, plant and equipment":			
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost in the PRC, with remaining lease term of:	(i)		
– between 10 and 50 years		**258,543**	272,095
Other properties leased for own use, carried at depreciated cost	(ii)	**26,399**	25,875
		284,942	297,970
Included in "Investment properties":			
Ownership interests in leasehold investment properties, carried at fair value, with remaining lease term of:	10		
– 50 years or more		**85,869**	–
– between 10 and 50 years		**29,082,759**	25,456,399
		29,168,628	25,456,399
Included in "Inventories":	19		
Completed properties held for sale		**1,087,975**	1,700,152
Properties under development for sale		**1,310,683**	1,321,326
		2,398,658	3,021,478
		31,852,228	28,775,847

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(Expressed in Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Right-of-use assets (continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings	18,419	24,204
Other properties leased for own use	14,438	–
	32,857	24,204
Interest on lease liabilities (note 5(a))	1,241	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	10,816	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	–	44,934

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

During the year, additions to right-of-use assets were RMB14,962,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 23(d) and 26, respectively.

(i) Ownership interests in leasehold land and buildings held for own use

The Group holds several commercial buildings as administrative offices. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its warehouses and administrative offices through tenancy agreements. The leases typically run for an initial period of 1 to 6 years. Lease payments are usually increased every 1 to 6 years to reflect market rentals. None of properties leased for own used include an option to renew the lease for an additional period after the end of the contract term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 INTANGIBLE ASSETS

	Unfinished contracts RMB'000	Software RMB'000	Favourable contracts RMB'000	Customer relationship RMB'000	Trademark RMB'000	Total RMB'000
Cost:						
At 1 January 2018	8,879	55,176	23,100	703,700	173,400	964,255
Additions	–	28,846	–	–	–	28,846
Addition from acquisition of subsidiaries	–	6,787	–	34,000	2,790	43,577
Disposals	–	(4,480)	–	–	–	(4,480)
At 31 December 2018	8,879	86,329	23,100	737,700	176,190	1,032,198
At 1 January 2019	**8,879**	**86,329**	**23,100**	**737,700**	**176,190**	**1,032,198**
Additions	**–**	**58,805**	**–**	**–**	**318**	**59,123**
Disposals	**–**	**(5,969)**	**–**	**–**	**–**	**(5,969)**
Disposals arising from disposal of subsidiaries	**(8,879)**	**(18,611)**	**–**	**–**	**–**	**(27,490)**
At 31 December 2019	**–**	**120,554**	**23,100**	**737,700**	**176,508**	**1,057,862**
Accumulated amortisation:						
At 1 January 2018	8,865	36,901	4,620	14,718	–	65,104
Addition from acquisition of subsidiaries	–	1,206	–	–	–	1,206
Charge for the year	14	1,535	9,240	49,477	291	60,557
Disposals	–	(2,798)	–	–	–	(2,798)
At 31 December 2018	8,879	36,844	13,860	64,195	291	124,069
At 1 January 2019	**8,879**	**36,844**	**13,860**	**64,195**	**291**	**124,069**
Charge for the year	**–**	**14,841**	**9,240**	**33,718**	**471**	**58,270**
Disposals	**–**	**(327)**	**–**	**–**	**–**	**(327)**
Disposals arising from disposal of subsidiaries	**(8,879)**	**(3,453)**	**–**	**–**	**–**	**(12,332)**
At 31 December 2019	**–**	**47,905**	**23,100**	**97,913**	**762**	**169,680**
Accumulated impairment losses:						
At 1 January 2018	–	–	–	–	–	–
Impairment loss recognised	–	–	–	99,735	53,089	152,824
At 31 December 2018	–	–	–	99,735	53,089	152,824
At 1 January 2019	**–**	**–**	**–**	**99,735**	**53,089**	**152,824**
Impairment loss recognised	**–**	**–**	**–**	**–**	**20,300**	**20,300**
At 31 December 2019	**–**	**–**	**–**	**99,735**	**73,389**	**173,124**
Net book value:						
At 31 December 2019	**–**	**72,649**	**–**	**540,052**	**102,357**	**715,058**
At 31 December 2018	–	49,485	9,240	573,770	122,810	755,305

The amortisation charge for the year is included in "administrative and other expenses" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

12 INTANGIBLE ASSETS (continued)

Included in the carrying amount of customer relationship and trademark as at 31 December 2019 is an amount of RMB518,517,000 and RMB121,700,000, respectively, allocated to CGU – Shenzhen Sinoagri E-commerce Co., Ltd. ("Shenzhen Sinoagri"), a business operation engaged in business of supply chain management and trading of agriculture products.

An impairment test has been carried out for the Shenzhen Sinoagri's trademark which has indefinite useful life. The recoverable amount of trademark was estimated through the application of an income approach technique known as relief from royalty method. Under the relief from royalty method, the value of the trademarks depends on the present worth of future economic benefits to be derived from the projected royalty income, using a discount rate of 22.06% (2018: 22.79%). The growth of royalty income was projected taking into account the average growth rate of Shenzhen Sinoagri's gross profit of 16.73% (2018: 16.62%) of next 5 years and a fixed royalty rate of 4% (2018:4%) based on the historical industry information. The growth of gross profit was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years. Royalty income beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2018: 3%). The growth rates used do not exceed the long-term average growth rates for the business in which the trademark related to. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The recoverable amount of trademark was estimated to be less than its carrying amount and impairment amounting RMB20,300,000 (2018: RMB51,700,000) was recognised. As the trademark has been reduced to its recoverable amount of RMB101,400,000 (2018: RMB121,700,000), any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

As a result of the recognition of the impairment loss for the Shenzhen Sinoagri's trademark, management considered that there was an indication of impairment for Shenzhen Sinoagri's customer relationship and carried out an impairment test. The recoverable amount of customer relationship was estimated based on the application of an income approach technique known as the multi-period excess earning method. In the application of this method, the forecast cash flow are discounted and adjusted into present worth to reflect all risks including intrinsic and extrinsic uncertainties in relation to the customer relationship. The growth of forecast cash flow in relation to the customer relationship was projected taking into account the average growth rate of Shenzhen Sinoagri's gross profit of 16.73% (2018: 16.62%) of next 5 years and an annual customer attrition rate of 17% (2018: 17%) based on historical data from internal sources. The growth of gross profit was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years. The gross profit projected beyond the five-year period to 17 years are using an estimated growth rate of 3% (2018: 3%). The growth rates used do not exceed the long-term average growth rates for the business in which the customer relationship related to. The cash flows are discounted using a pre-tax discount rate of 25.36% (2018: 29.96%). The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The recoverable amount of customer relationship was estimated to be more than its carrying amount as at 31 December 2019 and no impairment loss was recognised for the year ended 31 December 2019 (2018: RMB99,735,000).

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13 GOODWILL

	RMB'000
Cost:	
At 1 January 2018	1,606,280
Additions through business combination	106,797
Disposal of subsidiaries	(7)
At 31 December 2018 and 1 January 2019	**1,713,070**
Additions through business combination	**12,705**
Disposal of subsidiaries (note 36)	**(15,783)**
At 31 December 2019	**1,709,992**
Accumulated impairment losses:	
At 1 January 2018	–
Impairment loss recognised	(461,028)
At 31 December 2018 and 1 January 2019	**(461,028)**
Impairment loss recognised	**(258,327)**
At 31 December 2019	**(719,355)**
Carrying amount:	
At 31 December 2019	**990,637**
At 31 December 2018	1,252,042

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to operating segment as follows:

	2019 RMB'000	2018 RMB'000
Shenzhen Sinoagri – business of supply chain management and trading of agriculture products	**896,418**	1,129,462
HSH International Inc. ("HSH") – business of supply chain management and trading of chemical and plastic raw materials	**81,514**	106,797
E-commerce and financial services business	**–**	15,783
Others	**12,705**	–
	990,637	1,252,042

The recoverable amount of the CGU – Shenzhen Sinoagri is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The average budgeted EBITDA growth rate for the five year period is 27.60% (2018: 26.78%). Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2018: 3%). The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 19.70% (2018: 19.90%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

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13 GOODWILL (continued)

The recoverable amount of the CGU – HSH is determined based on fair value less cost of disposal calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The average budgeted EBITDA growth rate for the five year period is 283% (2018: 29%). Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past years and the estimated sales volume and price growth for the next five years. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2018: 3%). The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 21.22% (2018: 23.77%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The impairment loss recognised during the year relates to the CGU – Shenzhen Sinoagri and CGU – HSH. Impairment loss of RMB233,044,000 and RMB25,283,000 were recognised for CGU – Shenzhen Sinoagri and CGU – HSH respectively. As CGU – Shenzhen Sinoagri and CGU – HSH have been reduced to its recoverable amount of RMB3,003,069,000 and RMB104,188,000 respectively. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

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14 INTERESTS IN SUBSIDIARIES

The following list contains only the particulars of principal subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of subsidiaries	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Wuhan North Hankou Trade Market Investment Co., Ltd. (notes (i) and (ii)) 武漢漢口北商貿市場投資有限公司	The PRC	RMB55,000,000	100%	–	100%	Property development
Zall Investment Group Co., Ltd. (notes (i) and (ii)) 卓爾投資集團有限公司	The PRC	RMB100,000,000	100%	–	100%	Property development
Wuhan Big World Investment and Development Co., Ltd. (notes (i) and (ii)) 武漢大世界投資發展有限公司	The PRC	RMB100,000,000	100%	–	100%	Property development
Hubei Hupang Haoting Real Estate Development Co., Ltd. (notes (i) and (ii)) 湖北湖畔豪庭房地產開發有限公司	The PRC	RMB50,000,000	100%	–	100%	Property development
Zall Development (Changsha) Co., Ltd. (notes (i) and (ii)) 卓爾發展(長沙)有限公司	The PRC	RMB100,000,000	80%	–	80%	Property development
Tianjin Zall City Development Co., Ltd (notes (i) and (ii)) 天津卓爾城發展有限公司	The PRC	RMB160,000,000	100%	–	100%	Property development
Zall Development (Tianjin) Co., Ltd. (notes (i) and (ii)) 卓爾發展(天津)有限公司	The PRC	RMB1,001,000,000/ RMB442,000,000	100%	–	100%	Property development
Zall Development (Jingzhou) Co., Ltd. (notes (i) and (iii)) 卓爾發展(荊州)有限公司	The PRC	USD100,000,000/ RMB190,036,742	100%	–	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Wuhan Zall Lugang Centre Investment Co., Ltd. (notes (i) and (ii)) 武漢卓爾陸港中心投資有限公司	The PRC	RMB135,000,000	100%	–	100%	Property development
Wuhan North Hankou No.1 Mansion Construction Co., Ltd. (notes (i) and (ii)) 武漢漢口北一號公館建設有限公司	The PRC	RMB150,000,000	100%	–	100%	Property development
Wuhan Eastern Zall Properties Co., Ltd. (notes (i) and (ii)) 武漢東方卓爾置業有限公司	The PRC	RMB30,000,000	100%	–	100%	Property development
Shenzhen Sinoagri E-commerce Co., Ltd. (notes (i) and (iii)) 深圳市中農網有限公司	The PRC	RMB509,000,000	68.85%	–	68.85%	Supply chain management and trading business
Shenzhen Kunshang E-Sugar Supply Chain Co., Ltd. (notes (i) and (ii)) 深圳市昆商易糖供應鏈有限公司	The PRC	RMB80,000,000	45.76%	–	100%	Supply chain management and trading business
Yunnan Kunpeng Electronic Commerce & Wholesale Markets of Agricultural Products Co.,Ltd. (notes (i) and (ii)) 雲南鯤鵬農產品電子商務批發市場有限公司	The PRC	RMB40,000,000	45.76%	–	100%	Supply chain management and trading business
Guangxi Kangchen Shitang Trading Co., Ltd. (notes (i) and (ii)) 廣西康宸世糖貿易有限公司	The PRC	RMB10,000,000	45.76%	–	100%	Supply chain management and trading business
Shenzhen Sinoagri Yixian Co., Ltd. (notes (i) and (ii)) 深圳市中農易鮮供應鏈有限公司	The PRC	RMB10,000,000	68.85%	–	100%	Supply chain management and trading business
Shanghai Zall Steel E-commerce Co., Ltd. (notes (i) and (ii)) 上海卓鋼鏈電子商務有限公司	The PRC	RMB100,000,000/ RMB50,000,000	51%	–	51%	Supply chain management and trading business
Zhejiang Jiasusheng Trade Co., Ltd. (notes (i) and (ii)) 浙江嘉塑盛貿易有限公司	The PRC	RMB20,000,000	85.29%	–	100%	Supply chain management and trading business
Changzhou Sulai Trade Co., Ltd. (notes (i) and (ii)) 常州塑來貿易有限公司	The PRC	RMB20,000,000	85.29%	–	100%	Supply chain management and trading business
Commodities Intelligence Centre Pte. Ltd.	Singapore	SGD10,000,000	70%	–	70%	Supply chain management and trading business

Notes:

(i) The English translation of the companies names is for reference only. The official names of these companies are in Chinese.

(ii) These entities are domestic enterprises established in the PRC.

(iii) This entity is sino-foreign equity joint venture established in the PRC.

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14 INTERESTS IN SUBSIDIARIES (continued)

The following table lists out the information relating to Shenzhen Sinoagri and its subsidiaries, which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2019 RMB'000	2018 (Note) RMB'000
NCI percentage	31.15%	49.4%
Current assets	14,550,936	11,933,790
Non-current assets	611,652	553,710
Current liabilities	13,866,707	11,214,497
Non-current liabilities	141,457	124,234
Net assets	1,154,424	1,148,769
Carrying amount of NCI	538,867	790,581
Revenue	33,939,271	34,976,345
Profit for the year before amortisation of intangible assets, impairment loss on intangible assets and equity-settled share-based payment expense	21,972	53,389
Less: Expenses arisen from acquisition (after tax):		
– Amortisation of intangible assets	20,651	24,694
– Equity-settled share-based payment expense	(7,989)	53,586
– Impairment loss on intangible assets	15,225	151,435
Loss contributed to the Group's result	5,915	176,326
Total comprehensive income	(5,915)	(176,326)
Loss allocated to NCI	1,077	66,401
Dividend paid to NCI	6,237	13,302
Net cash generated from operating activities	810,191	222,786
Net cash used in investing activities	(49,551)	(24,064)
Net cash (used in)/generate from financing activities	(654,570)	46,616

Note: The subsidiaries have initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise additional right-of-use assets of RMB23,239,000 and lease liabilities of RMB23,107,000 relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated.

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15 INTERESTS IN ASSOCIATES

The following list contains only the particulars of material associates:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
LightInTheBox Holding Co., Ltd. ("LightInTheBox")	Incorporated	Cayman/Overseas	224,759,809 ordinary shares of USD0.000067 each	24.56%	–	24.56%	E-commerce (Note)

Note: LightInTheBox is a company incorporated under the laws of the Cayman Islands with limited liability, whose American Depositary Shares are listed on the New York Stock Exchange. LightInTheBox is a strategic partner for the Group in developing E-commence business where LightInTheBox has extensive experience.

The associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2019 RMB'000	2018 (Note (i)) RMB'000
Gross amounts of the associate's		
Revenue	1,678,543	1,524,215
Profit/(loss) for the year	6,924	(403,880)
Other comprehensive loss	(3,532)	(4,910)
Total comprehensive income	3,392	(408,790)
Dividend received from the associate	–	–
Current assets	400,273	381,292
Non-current assets	668,352	604,406
Current liabilities	499,998	756,572
Non-current liabilities	67,306	7,934
Equity	501,321	221,192
Reconciled to the Group's interests in the associate		
Gross amount of net assets of the associate	501,321	221,192
Group's effective interest	24.56%	41.04%
Group's share of net assets of the associate	123,124	90,777
Carrying amount of goodwill	153,213	250,751
Carrying amount in the consolidated financial statements	276,337	341,528

Notes:

(i) The associate has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise additional right-of-use assets of RMB42,984,000 and lease liabilities of RMB41,948,000 relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated.

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15 INTERESTS IN ASSOCIATES (continued)

On 16 December 2019, LightInTheBox issued 88,883,116 ordinary shares in exchange of its convertible promissory notes issued as the consideration for acquisition of a subsidiary in 2018. In addition, LightInTheBox issued 1,906,304 ordinary shares for employee incentive programs and repurchased 485,980 ordinary shares as treasury stock during 2019. Consequently, the Group's interest in LightInTheBox was diluted from 41.04% to 24.56%. The difference between the carrying amounts of interests in LightInTheBox immediately before and after the dilution resulted in a dilution loss of RMB72,207,000 and was recognised in consolidated statement of profit or loss.

Aggregate information of the associates that are not individually material:

	2019 **RMB'000**	2018 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**184,599**	126,060
Aggregate amount of the Group's share of those associates'		
– Profit/(loss) for the year	**5,471**	(5,850)
– Other comprehensive income	**–**	–
– Total comprehensive income	**5,471**	(5,850)

16 INTERESTS IN JOINT VENTURES

The directors are of the view that the Group had no individually material joint venture as at 31 December 2019 and 2018. Aggregate information of the joint ventures that are not individually material:

	2019 **RMB'000**	2018 RMB'000
Aggregate carrying amount of individually immaterial joint venture in the consolidated financial statements	**24,279**	25,519
Aggregate amount of the Group's share of the joint ventures'		
– Losses for the year	**1,895**	2,343
– Other comprehensive income	**–**	–
– Total comprehensive income	**1,895**	2,343

17 EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 **RMB'000**	2018 RMB'000
Equity securities designated at FVOCI (non-recycling)		
– Unlisted equity securities	**8,702**	8,702

The unlisted equity securities are shares in a company incorporated in PRC, which is held for strategic purposes. No dividends were received on this investment during the year (2018: nil).

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18 FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Financial assets at fair value through profit or loss		
Listed equity securities in Hong Kong		
– Fullshare Holdings Limited	95,287	968,187
Derivative financial instrument		
– Wealth management products and trust products (i)	4,214,546	3,388,360
– Forward contracts	295,525	141,051
Contingent consideration (notes 31(f))		
– acquisition of Shenzhen Sinoagri (ii)	182,575	278,052
– acquisition of HSH (iii)	7,031	9,705
	4,794,964	4,785,355
Financial liabilities at fair value through profit or loss-current		
Forward contracts	295,525	141,051
Contingent consideration (iii)		
– acquisition of HSH	876	1,276
Convertible redeemable preference shares (iv)	19,273	–
	315,674	142,327
Financial liabilities at fair value through profit or loss – non-current		
Convertible redeemable preference shares (iv)	–	59,024

(i) The amount represents investments in wealth management products and trust products issued by reputable financial institutions in the PRC. There are no fixed or determinable returns of these wealth management products and trust products. Wealth management products and trust products with an aggregate carrying amount of RMB3,432,913,000 (2018: RMB3,240,749,000) and RMB761,582,000 (2018: nil) were pledged as collateral for the Group's bills payables and interest-bearing borrowings (note 24 and 25).

(ii) The amount represents the contingent consideration of acquisition of Shenzhen Sinoagri amounting to RMB182,575,000 as at 31 December 2019 (2018: RMB278,052,000). The amount is generated as a result of part of the consideration of the acquisition which depends on the post-acquisition financial performance of Shenzhen Sinoagri.

(iii) The amount represents the contingent consideration of acquisition of HSH. The amount is generated as a result of part of the consideration of the acquisition which depends on the post-acquisition financial performance of HSH.

(iv) Convertible redeemable preference shares were issued by HSH. At the option of the holders, the convertible redeemable preference shares can be converted at any time into ordinary shares of HSH based on pre-determined conversion price, subject to certain anti-dilution adjustments. The convertible redeemable preference shares are redeemable upon occurrence of certain future events and at the option of the holders. The Group did not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period as at 31 December 2019.

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19 INVENTORIES

	2019 RMB'000	2018 RMB'000
Inventories		
Properties under development for sale	4,408,248	4,113,217
Completed properties held for sale	1,087,975	1,700,152
Commodities	337,424	463,736
	5,833,647	6,277,105

(a) Properties under development for sale

(i) Properties under development in the consolidated statement of financial position comprise:

	2019 RMB'000	2018 RMB'000
Expected to be recovered within one year		
Properties under development for sale	238,706	1,087,635
Expected to be recovered after more than one year		
Properties held for future development for sale	1,876,865	1,659,909
Properties under development for sale	2,292,677	1,365,673
	4,169,542	3,025,582
	4,408,248	4,113,217

As at 31 December 2019, certain properties under development with an aggregate carrying value of RMB1,407,013,000 (2018: RMB1,204,985,000) was pledged as collateral for the Group's interest-bearing borrowings (note 25).

(ii) The analysis of carrying value of leasehold land included in properties under development is as follows:

	2019 RMB'000	2018 RMB'000
In the PRC, with remaining lease term of:		
– 50 years or more	22,454	18,833
– Between 40–50 years	1,288,229	1,302,493
	1,310,683	1,321,326

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19 INVENTORIES (continued)

(b) Completed properties held for sale

	2019 RMB'000	2018 RMB'000
Completed properties held for sale in the PRC	**1,087,975**	1,700,152

The analysis of carrying value of leasehold land included in completed properties held for sale is as follows:

	2019 RMB'000	2018 RMB'000
In the PRC, with remaining lease term of:		
– 50 years or more	**3,169**	5,922
– Between 40–50 years	**62,382**	333,662
	65,551	339,584

Carrying amount of completed properties held for sale recognised as an expenses and included in profit or loss for the year ended 31 December 2019 is RMB51,878,000 (2018: RMB382,542,000).

The amount of completed properties held for sale expected to be recovered after more than one year is RMB1,045,500,000 (2018: RMB1,383,728,000).

As at 31 December 2019, completed properties held for sale with an aggregate carrying value of RMB217,909,000 and RMB724,000 (2018: RMB1,426,811,000 and nil) were pledged as collateral for the Group's interest-bearing borrowings and bills payables, respectively (note 25 and 24).

(c) Commodities

(i) Commodities in the consolidated statement of financial position comprise:

	2019 RMB'000	2018 RMB'000
Supply chain management and trading business		
– Sugar	**118,949**	89,882
– Steel	**171,534**	232,587
– Chemical materials	**3,894**	40,456
– Plastic	**1,419**	34,364
– Others	**41,628**	66,447
	337,424	463,736

(ii) The analysis of the amount of commodities recognised as an expenses and included in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000
Carrying amount of commodities sold	**71,459,292**	53,779,019

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20 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 RMB'000	2018 RMB'000
Contract assets		
Arising from performance under construction contracts	**339,388**	329,876
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and other receivables" (note 21)	**2,886,354**	2,068,252

The amount of contract assets that is expected to be recovered after more than one year is RMB339,388,000 (2018: RMB329,876,000).

(b) Contract liabilities

	2019 RMB'000	2018 RMB'000
Contract liabilities		
Property development and related services		
– Forward sales deposits and instalments received	**634,834**	443,709
Supply chain management and trading		
– Deposits received from third parties	**2,388,312**	1,358,564
– Deposits received from related parties	**–**	27,439
Others		
– Deposits received	**31,392**	6,006
	3,054,538	1,835,718

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20 CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

(b) Contract liabilities (continued)

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– Property development and related services

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

– Supply chain management and trading

The Group receives 10% to 100% of the contract value as a deposit from customers at the payment date as stipulated in the sale and purchase agreement. This deposit is recognised as a contract liability until the customer takes possession of and accepts the products.

Movements in contract liabilities

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**1,835,718**	1,047,300
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(1,429,331)**	(674,422)
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year in respect of sale of properties as at the year end	**204,083**	75,254
Increase in contract liabilities as a result of accruing interest expense on advances	**24,867**	13,924
Net increase in contract liabilities as a result of receiving deposits in respect of sale of commodities as at the year end	**2,419,201**	1,373,662
Balance at 31 December	**3,054,538**	1,835,718

The amount of forward sales deposits and instalments received in respect of properties expected to be recognised as income after more than one year is RMB157,468,000 (2018: RMB282,454,000).

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21 TRADE AND OTHER RECEIVABLES

	Note	**31 December 2019 RMB'000**	1 January 2019 RMB'000	31 December 2018 RMB'000
Trade debtors and bills receivables, net of loss allowance	21(a)	**5,654,627**	2,874,048	2,874,048
Loans and factoring receivables, net of loss allowance	21(b)	**1,409,208**	3,347,928	3,347,928
		7,063,835	6,221,976	6,221,976
Advances to suppliers		**2,893,150**	873,441	873,441
Other receivables, deposits and prepayments (note)		**1,776,950**	1,507,768	1,509,008
		11,733,935	8,603,185	8,604,425

Note: On the date of transition to IFRS 16, lease prepayments of RMB1,240,000 previously included in "Other receivables, deposits and prepayments" were adjusted to right-of-use assets recognised at 1 January 2019. See note 1(c).

Trade and other receivables of the Group included deposits of RMB19,616,000 (2018: RMB25,147,000) which are expected to be recovered or recognised as expense after more than one year. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

As at 31 December 2019, trade debtors of RMB25,679,000 (2018: nil) and other receivables of RMB8,000,000 (2018: RMB8,000,000) were pledged as collateral for the Group's interest-bearing borrowings (note 25).

(a) Ageing analysis of trade debtors and bill receivables

As at the end of the reporting period, the ageing analysis of trade debtors and bill receivables based on revenue recognition date and net of allowance for impairment losses, is as follows:

	2019 RMB'000	2018 RMB'000
Within 6 months	**3,865,388**	2,085,881
6 to 12 months	**1,032,370**	353,362
Over 12 months	**756,869**	434,805
	5,654,627	2,874,048

Customers are normally granted credit terms of 0 to 360 days, depending on the credit worthiness of individual customers. Further details on the Group's credit policy and credit risk arising from trade debtors and bill receivables are set out in note 31(a).

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21 TRADE AND OTHER RECEIVABLES (continued)

(b) Loans and factoring receivables, net of loss allowance

	2019 RMB'000	2018 RMB'000
Guaranteed loans receivable, net of loss allowance	–	39,424
Secured loans receivable, net of loss allowance (i)	1,377,962	2,162,005
Unsecured loans receivable, net of loss allowance	3,884	740,474
Factoring receivables, net of loss allowance	27,362	406,025
	1,409,208	3,347,928

(i) Secured loans receivables represent secured loans advanced to third-party borrowers secured by the borrowers' inventories, properties or unlisted shares.

Ageing analysis

As at the end of the reporting period, the ageing analysis of loans and factoring receivables based on recognition date of loans and factoring receivables and net of allowance for doubtful debts, is as follows:

	2019 RMB'000	2018 RMB'000
Within 6 months	1,122,268	3,026,116
6 to 12 months	47,235	51,347
Over 12 months	239,705	270,465
	1,409,208	3,347,928

Borrowers are normally granted credit terms of 180 to 360 days, depending on the credit worthiness of individual customers. Further details on the Group's credit policy and credit risk arising from loans and factoring receivables are set out in note 31(a).

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22 PLEDGED BANK DEPOSITS

	2019 RMB'000	2018 RMB'000
Secured for bank loans (note 25)	1,186,593	20,699
Secured for letter of credit and bills payable (note 24)	3,390,862	2,997,853
Secured for a bank loan of a third party (note 33(ii))	30,000	–
Others	72,890	47,680
	4,680,345	3,066,232

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalent comprise:

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	1,243,944	1,118,626

At 31 December 2019, cash and cash equivalents and pledged bank deposits with aggregate amount of RMB5,747,337,000 (2018: RMB4,087,685,000) were placed with banks in Mainland China. Remittance of funds out of Mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations

	Note	2019 RMB'000	2018 (Note) RMB'000
Profit before taxation		687,061	2,348,075
Adjustments for:			
Amortisation	5(c)	58,270	60,557
Depreciation			
– property, plant and equipment	5(c)	45,577	38,959
Loss on disposal of listed equity securities	4	61,705	80,274
Finance income	5(a)	(175,443)	(206,000)
Finance costs	5(a)	1,112,535	697,151
Net valuation gain on investment properties	10	(2,533,075)	(3,865,192)
Fair value changes on financial instruments at fair value through profit or loss	4	680,282	512,280
Share of net (profits)/losses of associates	15	(8,313)	172,873
Share of net losses of joint ventures	16	1,895	2,343
Equity-settled share-based payment expenses		31,783	169,663
Amortisation of deferred income		–	(10,823)
Dividend received from financial assets at fair value through profit or loss	4	–	(10,922)
Net gain on disposal of subsidiaries	4	(5,357)	(3,692)
Net loss on the dilution of interests in associates	4	63,625	–
Loss on disposal of investment properties	4	5,668	–
Impairment loss on intangible assets	12	20,300	152,824
Impairment loss on investment in an associate		–	26,155
Impairment loss on goodwill	13	258,327	461,028
Impairment loss on trade and other receivables	5(c)	246,229	265,422
Others		5,221	648
Changes in working capital			
Increase in inventories		(509,569)	(422,409)
Increase in trade and other receivables		(4,679,304)	(1,960,628)
Increase in contract assets		(9,512)	(5,014)
Increase in trade and other payables		3,580,020	372,050
Increase in contract liabilities		1,202,616	730,349
Increase in deferred income		3,585	7,111
Decrease in amounts due from related parties		–	18,657
Increase in amounts due to related parties		–	764
Cash generated from/(used in) operations		144,126	(367,497)

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB15,364,000 were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 23(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 1(c).

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23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities

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

	Interest-bearing borrowings RMB'000 (note 25)	Lease liabilities RMB'000 (note 26)	Amounts due to related parties RMB'000	Total RMB'000
At 31 December 2018	14,225,944	–	649,391	14,875,335
Impact on initial application of IFRS 16 (Note)	–	24,882	–	24,882
At 1 January 2019	14,225,944	24,882	649,391	14,900,217
Changes from financing cash flows:				
Advance from related parties	28,242	–	343,053	371,295
Repayment to related parties	(36,000)	–	(507,648)	(543,648)
Proceeds from new bank loans and loans from other financial institutions	9,920,876	–	–	9,920,876
Repayment of bank loans and loans from other financial institutions	(8,233,736)	–	–	(8,233,736)
Proceeds from other loans	12,264,548	–	–	12,264,548
Repayment of other loans	(9,627,261)	–	–	(9,627,261)
Capital element of lease rentals paid	–	(14,123)	–	(14,123)
Interest element of lease rentals paid	–	(1,241)	–	(1,241)
Total changes from financing cash flows	4,316,669	(15,364)	(164,595)	4,136,710
Other changes:				
Increase in lease liabilities from entering into new leases during the year	–	14,962	–	14,962
Interest expenses (note 5(a))	–	1,241	–	1,241
Addition from acquisition of subsidiaries	–	–	16,500	16,500
Decrease from disposal of subsidiaries	(52,000)	–	(32,994)	(84,994)
Total other changes	(52,000)	16,203	(16,494)	(52,291)
At 31 December 2019	18,490,613	25,721	468,302	18,984,636

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See notes 1(c) and 23(b).

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23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings RMB'000	Amounts due to third parties RMB'000	Amounts due to related parties RMB'000	Total RMB'000
At 1 January 2018	10,994,417	729,822	277,173	12,001,412
Changes from financing cash flows:				
Advance from related parties	23,000	–	808,753	831,753
Repayment to related parties	(12,000)	–	(436,535)	(448,535)
Proceeds from new bank loans and loans from other financial institutions	6,451,594	–	–	6,451,594
Repayment of bank loans and loans from other financial institutions	(5,747,415)	–	–	(5,747,415)
Proceeds from loans from third parties	2,406,259	685,369	–	3,091,628
Repayment of loans from third parties	–	(1,415,191)	–	(1,415,191)
Addition from acquisition of subsidiaries	117,563	–	–	117,563
Decrease from disposal of subsidiaries	(7,474)	–	–	(7,474)
Total changes from financing cash flows	3,231,527	(729,822)	372,218	2,873,923
At 31 December 2018	14,225,944	–	649,391	14,875,335

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows	10,816	34,196
Within financing cash flows	15,364	–
	26,180	34,196

Note: As explained in the note to note 23(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rentals paid	26,180	34,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 TRADE AND OTHER PAYABLES

	31 December 2019 RMB'000	1 January 2019 RMB'000	31 December 2018 RMB'000
Trade and bills payables (i)	10,522,064	8,143,449	8,143,449
Receipts in advance (ii)	268,324	294,356	294,356
Other payables and accruals	2,819,051	2,433,378	2,433,625
Other borrowings (i)	–	135,110	135,110
	13,609,439	11,006,293	11,006,540

Note: On the date of transition to IFRS 16, accrued lease payments of RMB247,000 previously included in "other payables and accruals" were adjusted to right-of-use assets recognised at 1 January 2019. See note 1(c).

The amount of deposits expected to be settled after more than one year is RMB13,919,000 (2018: RMB21,261,000). All the other trade and other payables are expected to be settled within one year or repayable on demand.

(i) As of the end of the reporting period, the ageing analysis of trade and bills payables and other borrowings, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 6 months	**6,654,358**	4,140,186
Over 6 months but within 12 months	**3,006,755**	2,386,941
Over 12 months	**860,951**	1,751,432
	10,522,064	8,278,559

(ii) Receipts in advance mainly represents rental receipts in advance for investment properties.

(iii) Assets of the Group pledged to secure the bills payables comprise:

	2019 RMB'000	2018 RMB'000
Pledged bank deposits (note 22)	**3,390,862**	2,997,853
Wealth management products and trust products (note 18)	**3,432,913**	3,240,749
Investment properties (note 10)	**98,965**	–
Completed properties held for sale (note 19)	**724**	–
	6,923,464	6,238,602

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(Expressed in Renminbi unless otherwise indicated)

25 INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interesting-bearing borrowings is as follows:

	2019 RMB'000	2018 RMB'000
Current		
Bank loans and loans from other financial institutions (note 25(a))	8,429,172	6,622,251
Loans from an associate	–	11,000
Loans from a joint venture (note 25(c))	3,242	–
Other loans (note 25(b))	3,028,413	1,689,249
Discounted bank acceptance bills (note 25(d))	2,556,252	932,614
	14,017,079	9,255,114
Non-current		
Bank loans and loans from other financial institutions (note 25(a))	2,210,402	3,953,821
Other loans (note 25(b))	2,263,132	1,017,009
	4,473,534	4,970,830
	18,490,613	14,225,944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

25 INTEREST-BEARING BORROWINGS (continued)

(a) Bank loans and loans from other financial institutions

At 31 December 2019, the bank loans and loans from other financial institutions were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within one year or on demand	**8,429,172**	6,622,251
After 1 year but within 2 years	**1,252,047**	2,368,953
After 2 years but within 5 years	**845,355**	1,311,118
After 5 years	**113,000**	273,750
	2,210,402	3,953,821
	10,639,574	10,576,072

(i) The breakdown of bank loans and loans from other financial institutions were as follows:

	2019 RMB'000	2018 RMB'000
Secured/guaranteed	**10,195,942**	10,419,072
Unsecured	**443,632**	157,000
	10,639,574	10,576,072

(ii) At 31 December 2019, certain bank loans and loans from other financial institutions of RMB5,000,000 (2018: RMB52,000,000), RMB544,000,000 (2018: RMB140,000,000) and RMB1,075,307,000 (2018: RMB1,401,000,000) were guaranteed by a third party, related parties (note 34(c)) and the Group's subsidiaries, respectively. Certain bank loans and loans from other financial institutions of RMB8,691,635,000 (2018: RMB8,966,072,000) were secured by the following assets of the Group:

	2019 RMB'000	2018 RMB'000
Pledged bank deposits (note 22)	**1,186,593**	20,699
Trade receivables (note 21)	**25,679**	–
Other receivables (note 21)	**8,000**	8,000
Investment properties (note 10)	**17,982,982**	16,378,386
Investment properties under development (note 10)	**4,140,002**	2,744,780
Properties under development (note 19)	**1,407,013**	1,204,985
Completed properties held for sale (note 19)	**217,909**	1,426,811
Property, plant and equipment (note 11)	**98,225**	116,653
Wealth management products and trust products (note 18)	**761,582**	–
	25,827,985	21,900,314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

25 INTEREST-BEARING BORROWINGS (continued)

(a) Bank loans and loans from other financial institutions (continued)

(iii) Bank loans and loans from other financial institutions bear interest ranging from 3.95% to 14.00% per annum as at 31 December 2019 (2018: 4.35% to 13.00%).

(iv) Certain banking facilities and borrowings of the Group are subject to the fulfilment of covenants relating to: (1) certain of the Group's subsidiaries' statement of financial position ratio; (2) restriction of profit distribution by certain of its subsidiaries; or (3) restriction of providing financial guarantees. These requirements are commonly found in lending arrangements with banks and financial institutions. If the Group was to breach such covenants, the drawn down facilities would become repayable on demand. The Group regularly monitors its compliance with these covenants and communicates with its lenders. Further details of the Group's management of liquidity risk are set out in note 31(b).

At 31 December 2019, bank loans and loans from other financial institutions of the Group of RMB5,252,837,000 (2018: RMB5,632,854,000) were not in compliance with the imposed covenants, of which RMB3,361,864,000 (2018: RMB5,632,854,000) the Group has obtained notices from the corresponding banks and other financial institutions, which confirmed that the respective subsidiaries of the Group would not be regarded as having breached the covenants and the banks and other financial institutions would not demand early repayment from the respective subsidiaries of the Group.

(b) Other Loans

At 31 December 2019, other loans were repayable as follows:

	2019 **RMB'000**	2018 RMB'000
Within one year or on demand	**3,028,413**	1,689,249
After 1 year but within 2 years	**–**	1,017,009
After 2 years but within 5 years	**2,263,132**	–
	5,291,545	2,706,258

(i) As at 31 December 2019, other loans were secured as follows:

	2019 **RMB'000**	2018 RMB'000
Secured	**2,350**	300,000
Unsecured	**5,289,195**	2,406,258
	5,291,545	2,706,258

(ii) As at 31 December 2019, bills receivables of RMB2,350,000 was pledged to secure other loans (2018: nil).

(iii) Other loans bear interest ranging from 4.00% to 10.00% per annum as at 31 December 2019 (2018: 4% to 8%).

(c) Loans from a joint venture are unsecured and bear interest ranging from 5.60% to 6.88% per annum as at 31 December 2019 (2018: nil).

(d) The Group has discounted bank acceptance bills of RMB2,556,252,000 as at 31 December 2019 (2018: RMB932,614,000). The directors of the Company believed that the Group still retains virtually all its risks and rewards, including the risk of default on discounted bank acceptance bills. Therefore, the Group continued to fully recognised the discounted instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to IFRS 16:

	31 December 2019		At 1 January 2019 (Note)	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	13,531	14,203	9,623	9,574
After 1 year but within 2 years	7,208	7,641	8,700	9,414
After 2 years but within 5 years	4,982	5,479	6,559	7,602
	12,190	13,120	15,259	17,016
	25,721	27,323	24,882	26,590
Less: total future interest expenses		(1,602)		(1,708)
Present value of lease liabilities		25,721		24,882

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to IFRS 16 are set out in note 1(c).

27 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 14% – 20% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

28 EQUITY-SETTLED SHARE-BASED PAYMENTS

(a) 2017 Share Option Scheme

The Group has adopted a share option scheme ("2017 Share Option Scheme") which granted a total of 45,667,950 share options to certain senior management of Shenzhen Sinoagri ("Shenzhen Sinoagri Management team") at total consideration of HK$3.00 to subscribe shares of the Company. Each option gives the holder right to subscribe for one ordinary share in the Company and is settled gross in shares.

The terms and conditions of the grants are as follows:

Number of share options	Vesting conditions	Contractual life of options
	The date of grant of 22 December 2017 to the respective date of the publication of annual report of the Company for the following financial year	**The respective date of the publication of annual report of the Company for the following financial year to 21 December 2027**
9,133,590	2017	2017
9,133,590	2018	2018
9,133,590	2019	2019
9,133,590	2020	2020
9,133,590	2021	2021
45,667,950		

The number of the options to be exercised after each vesting period is subject to a performance guarantee mechanism with reference to revenue and net profit of Shenzhen Sinoagri for the respective financial year as set out in the 2017 Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

28 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(a) 2017 Share Option Scheme (continued)

The number and weighted average exercise prices of share options are as follows:

	2019		2018	
	Weighted average exercise price HKD	Number of options	Weighted average exercise price HKD	Number of options
Outstanding at the beginning/end of the year	8.48	45,667,950	8.48	45,667,950
Exercisable at the end of the year	8.48	15,547,407	8.48	9,133,590

As at 31 December 2019, the remaining contractual life of share option scheme is 8 years (2018: 9 years).

Fair value of share options and assumptions:

The fair value of service received in return of share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The fair value of each share option at measurement date is HKD3.7179 and the significant inputs into the model are listed as follows:

Share price determined at the measurement date	HKD8.48
Exercise price	HKD8.48
Time to maturity	10 years
Exercise multiple	2.20
Volatility	37.29%
Estimated dividend yields	0%
Risk free rate	1.85%
Pre-vesting exit rate	0%
Post-vesting exit rate	0%

The estimated volatility of share price is calculated based on the statistical analysis of historical volatility of the Company adjusted for any expected changes to future volatility based on publicly available information. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. Changes in the subjective input assumptions could materially affect the fair value estimate.

In 2019, total expense of RMB5,657,000 for share options granted to the recipients was reversed in the consolidated statement of profit or loss due to the true-up for change of estimate made for the number of equity instruments for which service and non-market performance conditions are expected to be satisfied (2018: total expense of RMB38,089,000 recognised).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

28 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(b) Management Shares Award Scheme

On 22 December 2017, total 8,059,050 awarded shares were granted to Shenzhen Sinoagri Management team. The grant date is 22 December 2017. The purposes of the award shares to Shenzhen Sinoagri Management team is to ensure the certainty of benefit and security of the recipients' positions and also allow the Company to continue its business operation with stability.

The awarded shares granted to the grantees will vest in 5 equal instalments upon the publication of the annual report of the Company for each financial year ended 2017 to 2021. The number of awarded shares to be vested in each instalment is subject to the same performance guarantee mechanism with reference to revenue and net profit of Shenzhen Sinoagri for the respective financial year as set out in the 2017 Share Option Scheme.

The awarded shares granted were issued on 22 December 2017 and movements in the number of shares held for Management Shares for the year ended 2019 are as follows:

	2019	2018
Number of Management Shares granted but not yet vested at the beginning of the year	**6,447,240**	8,059,050
Vested during the year	**(1,131,850)**	(1,611,810)
Number of Management Shares granted but not yet vested at the end of the year	**5,315,390**	6,447,240

The total fair value of the awarded shares amounted to RMB59,175,000. The estimated fair value of the award shares on the grant date is determined by reference to the market price of the Company's shares at that date. Total expense of RMB2,332,000 was reversed in the consolidated statement of profit or loss for the year ended 31 December 2019 (2018: recognised expense of RMB15,497,000) due to the true-up for change of estimate made for the number of equity instruments for which service and non-market performance conditions are expected to be satisfied, with a corresponding decrease (2018: increase) in equity-settled share-based payment reserve within equity.

(c) Incentive Shares

As one of the conditions of the acquisition of Shenzhen Sinoagri, the Company entered into a service agreement with Mr. Wei Zhe, pursuant to which, Mr. Wei Zhe would be appointed as an executive Director for a term from 28 June 2017 to 31 December 2019. As part of the remuneration package for Mr. Wei Zhe's contribution to the Company, subject to satisfaction by Shenzhen Sinoagri of the performance conditions for any of the three financial years from 2017 to 2019, the Company will allot and issue 10,746,000 ordinary shares ("Incentive Shares") to Mr. Wei Zhe within the two weeks after the date on which the annual report for the relevant financial year is published. The performance conditions are the same conditions as stated in performance guarantee mechanism set out in the 2017 Share Option Scheme with reference to revenue and net profit of Shenzhen Sinoagri. The Incentive Shares will be released to Mr. Wei Zhe under a lock-up arrangement.

For the purposes of the monitoring, implementing and enforcing the abovementioned lock-up arrangement, the certificates of the Incentive Shares, once issued, will be initially deposited with the Company in escrow. If Shenzhen Sinoagri satisfies the abovementioned performance conditions, all of the Incentive Shares will be allotted and issued to Mr. Wei Zhe upon the publication of that year's annual report of the Company, of which up to three-fifths of the Incentive Shares will be immediately released to Mr. Wei Zhe and the remaining Incentive Shares will be released in equal instalments upon the publication of the annual report of the Company for each of the following financial years up to 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

28 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(c) Incentive Shares (continued)

Movements in the number of shares granted for the Incentive Shares for the year ended 31 December 2019 are as follows:

	2019	2018
Number of shares granted but not yet vested at the beginning of the year	8,596,800	10,746,000
Vested during the year	(8,596,800)	(2,149,200)
Number of shares granted but not yet vested at the end of the year	–	8,596,800

The estimated fair value of the Incentive Shares on the grant date is determined based on the market price of the Company's shares at that date and discount for lack of marketability, which is determined based on Asian put option pricing model. The fair value of the Incentive Shares on the grant date was RMB43,095,000 and the significant inputs into the model are listed as follows:

Share price determined at the measurement date	HKD4.92
Expiry date	30 April 2018, 2019, 2020, 2021 and 2022
Volatility	28.266% to 46.642%
Risk free rate	0.179% to 0.737%

The Group recognised share based payment expenses of RMB11,773,000 for the year ended 31 December 2019 (2018: RMB18,360,000) with a corresponding increase in equity-settled share-based payment reserve within equity.

(d) VKC Consultancy Service Consideration Shares

As one of the conditions of the acquisition of Shenzhen Sinoagri, the Company entered into a consultancy agreement with Vision Knight Capital Management Company Limited ("VKC", a company incorporated in Cayman Islands with limited liability and a company controlled by Mr. Wei Zhe), pursuant to which VKC as the consultant will provide E-commerce development related services in PRC to the Company for a term of three years from 28 June 2017 at a consultancy fee which will be satisfied by the allotment and issue of 42,981,000 ordinary shares ("VKC Consultancy Service Consideration Shares") of the Company to VKC. The vesting of VKC Consultancy Service Consideration Shares is subject to the same vesting conditions of the Incentive Shares.

Movements in the number of shares granted for VKC Consultancy Service Consideration Shares for the year ended 31 December 2019 are as follows:

	2019	2018
Number of shares granted but not yet vested at the beginning of the year	34,384,800	42,981,000
Vested during the year	(8,596,200)	(8,596,200)
Number of shares granted but not yet vested at the end of the year	25,788,600	34,384,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

28 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(d) VKC Consultancy Service Consideration Shares (continued)

The fair value of the granted shares is determined based on the market price of the Company's shares during the service rendering period and discount for lack of marketability, which is determined based on Asian put option pricing model. The Group recognised share-based payment expenses of RMB27,925,000 for the year ended 31 December 2019 (2018: RMB97,481,000) with a corresponding increase in equity-settled share-based payment reserve within equity.

Share price determined at the measurement date	HKD4.92
Expiry date	30 April 2018, 2019, 2020, 2021 and 2022
Volatility	31.548% to 46.990%
Risk free rate	0.429% to 0.677%

(e) 2018 Share Option Scheme

The Group has adopted a share option scheme ("2018 Share Option Scheme") which granted a total of 50,000,000 share options during year ended 31 December 2018, to the eligible participants to subscribe shares of the Company. Each option gives the holder right to subscribe for one ordinary share in the Company and is settled gross in shares.

The terms and conditions of the grants are as follows:

			Number of shares option granted			
Date granted	Vesting date	Expiry date	Directors	Employee	Exercise price	Total
4 Sep 2018	the first trading date after the 12-month period from the date of grant	the last trading date of the 24-month period from the date of grant	1,500,000	13,500,000	HKD6.66	15,000,000
4 Sep 2018	the first trading date after the 24-month period from the date of grant	the last trading date of the 36-month period from the date of grant	1,500,000	13,500,000	HKD6.66	15,000,000
4 Sep 2018	the first trading date after the 36-month period from the date of grant	the last trading date of the 48-month period from the date of grant	2,000,000	18,000,000	HKD6.66	20,000,000

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28 EQUITY-SETTLED SHARE-BASED PAYMENTS (continued)

(e) 2018 Share Option Scheme (continued)

The number of the options to be exercised after each vesting period is subject to fulfilment of certain financial performance targets as set out in the 2018 Share Option Scheme.

The number and weighted average exercise prices of share options are as follows:

	2019		2018	
	Weighted average exercise price HKD	Number of options	Weighted average exercise price HKD	Number of options
Outstanding at the beginning of the year	6.66	48,700,000	–	–
Granted during the year	–	–	6.66	50,000,000
Lapsed during the year	6.66	(17,480,000)	6.66	(1,300,000)
Outstanding at the end of the year	6.66	31,220,000	6.66	48,700,000
Exercisable at the end of the year	–	–	–	–

As at 31 December 2019, the weighted average remaining expected contractual life of share option scheme is 1.81 years (2018: 2.85 years).

Fair value of share options and assumptions:

The fair value of service received in return of share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The fair value of each share option at measurement date is HKD1.71 and the significant inputs into the model are listed as follows:

Share price determined at the measurement date	HKD6.36
Exercise price	HKD6.66
Time to maturity	2–4 years
Exercise multiple	2.80
Volatility	33.66% – 43.76%
Estimated dividend yields	0.48%
Risk free rate	1.98% – 2.10%
Pre-vesting exit rate	0%
Post-vesting exit rate	4.5%

The estimated volatility of share price is calculated based on the statistical analysis of historical volatility of the Company, adjusted for any expected changes to future volatility based on publicly available information. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. Changes in the subjective input assumptions could materially affect the fair value estimate.

No expense was recognised in the consolidated statement of profit or loss for the years ended 2019 and 2018 as performance condition was not satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2019 RMB'000	2018 RMB'000
Current tax assets:		
PRC CIT	9,597	3,173
PRC LAT	10,941	8,844
	20,538	12,017
Current tax liabilities:		
PRC CIT	359,148	307,368
PRC LAT	143,022	145,112
	502,170	452,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Provision for PRC LAT RMB'000	Fair value adjustments for investment properties RMB'000	Tax loss RMB'000	Fair value adjustment of intangible assets through business combination RMB'000	Credit loss allowance RMB'000	Others RMB'000	Total RMB'000
Deferred tax arising from:							
At 1 January 2018	19,404	(3,315,115)	13,998	(220,818)	86,656	(281,413)	(3,697,288)
Credited/(charged) to profit or loss	14,259	(1,202,100)	8,302	52,842	25,354	233,136	(868,207)
Credited to other comprehensive income	–	–	–	–	–	632	632
Acquisition of subsidiaries	–	–	–	(9,198)	–	–	(9,198)
Disposal of subsidiaries	–	–	–	–	–	99	99
At 31 December 2018/ 1 January 2019	33,663	(4,517,215)	22,300	(177,174)	112,010	(47,546)	(4,573,962)
(Charged)/credited to profit or loss	(960)	(613,405)	3,471	16,738	34,783	10,549	(548,824)
Acquisition of subsidiaries	–	–	–	–	354	–	354
Disposal of subsidiaries	–	–	(905)	–	(20,385)	(363)	(21,653)
At 31 December 2019	32,703	(5,130,620)	24,866	(160,436)	126,762	(37,360)	(5,144,085)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) Reconciliation to the consolidated statement of financial position

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	247,611	211,047
Net deferred tax liabilities recognised in the consolidated statement of financial position	(5,391,696)	(4,785,009)
	(5,144,085)	(4,573,962)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(w), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB1,318,409,000 as at 31 December 2019 (2018: RMB776,339,000). The directors consider it is not probable that future taxable profits against which the losses can be utilised will be available from these subsidiaries. Cumulative tax losses of RMB1,236,866,000 (2018: RMB698,073,000) will expire within 5 years under current tax legislation.

(d) Deferred tax liabilities not recognised

As at 31 December 2019, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB18,562,690,000 (2018: RMB16,882,718,000). Deferred tax liabilities of RMB1,856,269,000 (2018: RMB1,688,272,000) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000 30(b)	Share premium RMB'000 30(c)(i)	Shares held for various incentive plans RMB'000	Equity-settled share-based payment reserve RMB'000 30(c)(iv)	Exchange reserve RMB'000 30(c)(iii)	Accumulated losses RMB'000	Total equity RMB'000
1 January 2018		32,292	4,362,842	(59,175)	122,484	(85,382)	(305,995)	4,067,066
Changes in equity for 2018:								
Total comprehensive income for the year		–	–	–	–	53,856	(128,811)	(74,955)
Issue of shares for Incentive Shares		23	69,850	(69,873)	–	–	–	–
Issue of shares for VKC Consultancy Service Consideration Shares		93	279,381	(279,474)	–	–	–	–
Equity-settled share-based payment for employee	28	6	9,055	11,835	51,049	–	–	71,945
Equity-settled share-based payment for non-employee	28	23	49,827	–	47,631	–	–	97,481
Dividend approved in respect of the previous year	30(e)	–	(246,653)	–	–	–	–	(246,653)
At 31 December 2018		32,437	4,524,302	(396,687)	221,164	(31,526)	(434,806)	3,914,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(a) Movements in components of equity (continued)

	Note	Share capital RMB'000 30(b)	Share premium RMB'000 30(c)(i)	Shares held for various incentive plans RMB'000	Equity-settled share-based payment reserve RMB'000 30(c)(iv)	Exchange reserve RMB'000 30(c)(iii)	Accumulated losses RMB'000	Total equity RMB'000
1 January 2019		32,437	4,524,302	(396,687)	221,164	(31,526)	(434,806)	3,914,884
Changes in equity for 2019:								
Total comprehensive income for the year		–	–	–	–	30,031	(55,474)	(25,443)
Acquisition of non-controlling interest of subsidiaries	30(b)(i)	296	172,066	–	–	–	–	172,362
Equity-settled share-based payment for employee	28	–	(35,932)	78,183	(38,467)	–	–	3,784
Equity-settled share-based payment for non-employee	28	–	(21,733)	69,869	(20,211)	–	–	27,925
At 31 December 2019		32,733	4,638,703	(248,635)	162,486	(1,495)	(490,280)	4,093,512

Note: The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See notes 1(c) and 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Share capital

	Note	2019 Number of shares ('000)	2019 Amount HKD'000	2018 Number of shares ('000)	2018 Amount HKD'000
Authorised:					
Ordinary shares of HKD0.00333 each		**24,000,000**	**80,000**	24,000,000	80,000
Ordinary shares, issued and fully paid:					
At 1 January		**11,681,732**	**38,938**	11,628,005	38,759
Issuance of Incentive Shares		**–**	**–**	10,746	36
Issuance of VKC Consultancy Service Consideration Shares		**–**	**–**	42,981	143
Issuance of new shares as consideration for acquisition of non-controlling interest of a subsidiary	(i)	**101,094**	**337**	–	–
At 31 December		**11,782,826**	**39,275**	11,681,732	38,938

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) On 10 June 2019, 101,094,000 ordinary shares were issued for acquisition of 9.89% equity interest of Shenzhen Sinoagri. The fair value of the consideration for the acquisition was RMB172,362,000 (equal to HKD196,122,000) and was measured by using the number of ordinary shares issued and the listed share price of HKD1.94 per share on that date.

The amounts of the consideration of RMB296,000 (equal to HKD337,000) representing the par value of these ordinary shares, were credited to the Company's share capital and the excess of the amounts of the consideration over the nominal value of the total number of ordinary shares issued were credited to the share premium account of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) PRC statutory reserve

Pursuant to the Articles of Association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at 10% of profit after tax determined in accordance with accounting rules and regulations of the PRC until the reserve balance reaches 50% of the registered capital. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the PRC subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

(iii) Exchange reserve

The exchange reserve comprises all relevant exchange differences arising from the translation of the financial statements of operations with functional currency other than Renminbi. The reserve is dealt with in accordance with the accounting policy set out in note 1(z).

(iv) Equity-settled share-based payment reserve

Share-based payment reserve comprises the following:

- The fair value of services provided by parties other than employees to the Group in connection with the listing of the Company and the services were settled by equity instrument of the Company. The relevant services are recognised in accordance with IFRS 2, Share-based payment;

- The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(v); and

- The portion of the grant date fair value of unreleased Incentive Shares and Management Shares granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for the share-based payments in note 1(v).

(v) Other reserves

The balance comprises capital reserve surplus/deficit arising from the difference between the deemed consideration and the corresponding net assets value at the respective date of the transactions with owners in their capacity as the equity owners.

(vi) Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment immediately before its reclassification as investment property.

(vii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see note 1(g)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and securities afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as interest-bearing borrowings and lease liabilities less fixed deposits with banks with original maturity over three months, pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity.

The Group's strategy is to maintain the adjusted net debt-to-capital ratio not exceed 75%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This did not have a significant impact on the Group's adjusted net debt-to-capital ratio rose on 1 January 2019 when compared to its position as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Capital management (continued)

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	Note	31 December 2019 RMB'000	1 January 2019 (Note) RMB'000	31 December 2018 (Note) RMB'000
Current liabilities:				
Interest-bearing borrowings	25	14,017,079	9,255,114	9,255,114
Lease liabilities	26	13,531	9,623	–
Non-current liabilities:				
Interest-bearing borrowings	25	4,473,534	4,970,830	4,970,830
Lease liabilities	26	12,190	15,259	–
Total debt		18,516,334	14,250,826	14,225,944
Less: Fixed deposits with banks with original maturity over three months		30,014	203,287	203,287
Pledged bank deposits	22	4,680,345	3,066,232	3,066,232
Cash and cash equivalents	23	1,243,944	1,118,626	1,118,626
Adjusted net debt		12,562,031	9,862,681	9,837,799
Total equity attributable to equity shareholders of the Company		19,078,994	18,779,592	18,779,592
Adjusted net debt-to-capital ratio		65.84%	52.52%	52.39%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 1(c).

Neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

30 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2019 and 2018.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, nil (2018: HKD2.58 cents per share)	–	246,653

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investment in other entities and movement in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade debtors and other receivables and loans and factoring receivables. The Group's exposure to credit risk arising from cash and cash equivalents, fixed deposits with banks with original maturity over three months, pledged bank deposits and bills receivable is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

Except for the financial guarantees given by the Group as set out in note 33, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 33.

Trade debtors and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, nil (2018: nil) and nil (2018: 1%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the segments of supply chain management and trading and the E-commerce and financing services.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivables are due within 0-360 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Trade debtors and other receivables (continued)

The Group measures loss allowances for trade debtors and other receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors and other receivables:

	2019		
	Expected loss rate	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current or less than one year past due	**3%**	**6,873,673**	**198,965**
One to two years past due	**14%**	**686,539**	**97,125**
Two to three years past due	**23%**	**141,241**	**32,354**
Over three years past due	**53%**	**124,198**	**65,630**
		7,825,651	**394,074**

	2018		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current or less than one year past due	4%	4,104,421	159,010
One to two years past due	21%	459,921	95,248
Two to three years past due	39%	73,343	28,793
Over three years past due	70%	94,050	65,628
		4,731,735	348,679

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Trade debtors and other receivables (continued)

Movement in the loss allowance account in respect of trade debtors and other receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	348,679	295,485
Addition through acquisition of subsidiaries	1,348	513
Amounts written off during the year	(156,546)	(135,197)
Impairment losses recognised during the year (note 5(c))	201,237	187,878
Disposals arising from disposal of subsidiaries	(644)	–
Balance at 31 December	394,074	348,679

Loans and factoring receivables

The Group has put in place continuous monitoring mechanism, with regular reporting of credit exposures to internal management of credit risk. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

Measurement of ECL

Based on whether there is a significant increase in credit risk and whether the asset has incurred credit impairment, the Group measures allowances for loss of different assets with 12-month ECL or lifetime ECL respectively.

The Group measures loss provision of the financial instruments that meet the following conditions according to the amount of expected credit losses within the next 12 months, and measures loss allowances for other financial instruments in accordance with the amount of lifetime expected credit losses.

– The financial instruments that are determined to have low credit risk at the reporting date; or

– The financial instruments for which credit risk has not increased significantly since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(i) Significant increase in credit risk

When one or more quantitative, qualitative standards or upper limits are triggered, the Group assumes that credit risk on financial instruments has increased significantly.

If one or more of the following criteria are met:

- The credit spread increases significantly;
- Significant changes with an adverse effect that have taken place in the counterparty's business, financial and economic status;
- Application of a grace period or debt-restructuring;
- Significant changes with an adverse effect in the counterparty's operating conditions;
- Less value of the collaterals (for the collateralised loans and pledged loans only);
- Early indicators of problems of cash flow/liquidity, such as late payment of accounts payable/repayment of loans;
- The payment is more than 30 days past due.

As at 31 December 2019, the Group has not considered that any of its financial instruments has lower credit risk and no longer compared the credit risk at the balance sheet date with that at the initial recognition to identify whether there was a significant increase in credit risk.

(ii) Definition of "default" and "credit-impaired assets"

When a financial instrument meets one or more of the following conditions, the Group considers the financial asset to be in default, and the criteria are consistent with the definition of credit-impaired assets.

(a) Quantitative criterion

The financial asset is more than 90 days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(ii) Definition of "default" and "credit-impaired assets" (continued)

(b) Qualitative criterion

The counterparty meets the criterion of "having difficulty in repayment", which indicates that the counterparty has significant financial difficulty, including:

– the counterparty has been in the grace period for a long time;

– the death of the counterparty;

– the counterparty enters bankruptcy;

– the counterparty breaches (one or more) terms of the contract that the debtor shall be subject to;

– the disappearance of an active market for the related financial asset because of financial difficulties faced by the counterparty;

– the creditor make concessions due to the financial difficulties faced by the counterparty;

– it becomes probable that the counterparty will enter bankruptcy;

– a higher discount was obtained during the acquisition of assets, and the assets has incurred credit loss when they are acquired.

The above criteria apply to all financial instruments of the Group and they are consistent with the definition of "default" adopted by the internal management of credit risk.

(iii) Notes to the parameters, assumptions and valuation techniques

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

– PD refers to the likelihood that a counterparty will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

– EAD is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

– LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Group determines the expected credit losses by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future months. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the expected credit losses for the future months. The results of calculation for each month are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(iii) Notes to the parameters, assumptions and valuation techniques (continued)

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

– In respect of the loans receivables, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the counterparty.

– The Group determines the 12-month LGD and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

– Forward-looking economic information should be considered when determining the 12-month and lifetime PD, EAD and LGD.

The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Both the assessment of the significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including GDP, increase in RMB loans, PPI, etc..

There has been no significant changes in the valuation techniques and key assumptions during the reporting period.

(iv) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of each of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of reporting period is disclosed in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(v) The credit quality of financial assets is analysed as follows:

(a) Analysed by nature

	2019 RMB'000	2018 RMB'000
Loans and factoring receivables		
Corporate loans	1,343,682	2,297,453
Corporate factoring	27,823	436,354
Personal business loans	92,496	655,228
Gross loans and factoring receivables	1,464,001	3,389,035
Accrued interest	73,182	112,752
Less: Allowances for impairment losses on loans and factoring receivables	127,975	153,859
Net loans and factoring receivables	1,409,208	3,347,928

(b) Analysed by industry sector

	2019		
	Amount RMB'000	Percentage	Loans and factoring receivables secured by collaterals RMB'000
Commodities trading	1,343,682	92%	1,337,439
Leasing and commercial services	24,199	2%	24,199
Manufacturing	3,087	0%	3,087
Transportation, storage and postal service	537	0%	537
Sub-total of corporate loans and factoring	1,371,505	94%	1,365,262
Personal business loans	92,496	6%	85,412
Gross loans and factoring receivables	1,464,001	100%	1,450,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(v) The credit quality of financial assets is analysed as follows: (continued)

(b) Analysed by industry sector (continued)

	2018		
	Amount RMB'000	Percentage	Loans and factoring receivables secured by collaterals RMB'000
Commodities trading	2,224,845	66%	1,515,156
Leasing and commercial services	142,608	4%	7,608
Wholesale and retail	55,724	2%	–
Manufacturing	280,622	8%	–
Transportation, storage and postal service	30,009	1%	–
Sub-total of corporate loans and factoring	2,733,808	81%	1,522,764
Personal business loans	655,227	19%	655,228
Gross loans and factoring receivables	3,389,035	100%	2,177,992

All of the loans and factoring receivables as at 31 December 2019 and 2018 were within the PRC.

(c) Analysed by type of collateral

	2019 RMB'000	2018 RMB'000
Unsecured	13,327	1,171,543
Guaranteed	–	39,500
Collateralised	1,450,674	2,177,992
Gross loans and factoring receivables	1,464,001	3,389,035
Accrued interest	73,182	112,752
Less: Allowances for impairment losses on loans and factoring receivables	127,975	153,859
Net loans and factoring receivables	1,409,208	3,347,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(v) The credit quality of financial assets is analysed as follows: (continued)

(d) Overdue loans and factoring receivables analysed by overdue period

	2019			
	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Collateralised	–	40,511	171,929	212,440
As a percentage of gross loans and factoring receivables	–	2.77%	11.74%	14.51%

	2018			
	Overdue more than three months to one year (inclusive) RMB'000	Overdue more than one year to three years (inclusive) RMB'000	Overdue more than three years RMB'000	Total RMB'000
Collateralised	42,484	7,673	185,267	235,424
As a percentage of gross loans and factoring receivables	1.25%	0.23%	5.47%	6.95%

Overdue loans and factoring receivables represent loans or factoring, of which the whole or part of the principal or interest are overdue for one day or more.

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(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(v) The credit quality of financial assets is analysed as follows: (continued)

(e) Allowances for impairment losses

	2019			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Gross loans and factoring receivables	1,194,297	43,936	225,768	1,464,001
Accrued interest receivable	23,097	49,910	175	73,182
Less: Allowances for impairment losses	1,306	252	126,417	127,975
Carrying amount of loans and factoring receivables	1,216,088	93,594	99,526	1,409,208

	2018			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Gross loans and factoring receivables	1,911,833	981,156	496,046	3,389,035
Accrued interest receivable	54,385	44,300	14,067	112,752
Less: Allowances for impairment losses	6,554	4,004	143,301	153,859
Carrying amount of loans and factoring receivables	1,959,664	1,021,452	366,812	3,347,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(v) The credit quality of financial assets is analysed as follows: (continued)

(f) Movements of allowances for impairment losses

	2019			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
As at 1 January	6,554	4,004	143,301	153,859
Transferred				
– to lifetime ECL not credit-impaired	(157)	157	–	–
Charged for the year	539	202	48,226	48,967
Recoveries	(2,358)	(1,617)	–	(3,975)
Disposal of a subsidiary	(3,272)	(2,494)	(65,110)	(70,876)
As at 31 December	1,306	252	126,417	127,975

	2018			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
As at 1 January	14,773	886	60,656	76,315
Transferred				
– to lifetime ECL not credit-impaired	(286)	286	–	–
– to lifetime ECL credit-impaired	(389)	–	389	–
Charged for the year	–	2,832	82,256	85,088
Recoveries	(7,544)	–	–	(7,544)
As at 31 December	6,554	4,004	143,301	153,859

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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Loans and factoring receivables (continued)

Measurement of ECL (continued)

(v) The credit quality of financial assets is analysed as follows: (continued)

(g) The credit quality of financial assets is analysed as follows:

	2019 RMB'000	2018 RMB'000
Balance of financial assets that are assessed for expected credit losses over the next 12 months		
– Neither overdue nor credit-impaired	1,194,297	1,911,833
Sub-total	1,194,297	1,911,833
Balance of financial assets that are not credit impaired and assessed for lifetime expected credit losses		
– Neither overdue nor credit-impaired	43,936	981,156
Sub-total	43,936	981,156
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses		
– Overdue and credit-impaired	225,768	235,424
– Credit-impaired but not overdue	–	260,622
Sub-total	225,768	496,046
Accrued interest	73,182	112,752
Less: Allowances for impairment losses	127,975	153,859
Total	1,409,208	3,347,928

The fair value of collaterals held against loans and factoring receivables credit-impaired as at 31 December 2019 and 2018 amounted to RMB105,419,000 and RMB181,609,000, respectively. The collaterals mainly include sugar and other commodities. The fair value of collaterals was estimated by the Group based on the market prices obtained from secondary markets, adjusted in light of disposal experience and current market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands subject to approval by the Company's management when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 1(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

(i) The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Interest-bearing borrowings (excluding discounted bank acceptance bills)	**12,383,481**	**1,380,931**	**3,450,183**	**118,972**	**17,333,567**	**15,934,361**
Trade and other payables (excluding receipts in advance)	**13,327,196**	**13,919**	**–**	**–**	**13,341,115**	**13,341,115**
Lease liabilities (Note)	**14,203**	**7,641**	**5,479**	**–**	**27,323**	**25,721**
Amounts due to related parties	**95,072**	**373,230**	**–**	**–**	**468,302**	**468,302**
	25,819,952	**1,775,721**	**3,455,662**	**118,972**	**31,170,307**	**29,769,499**

	2018					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing borrowings (excluding discounted bank acceptance bills)	8,891,939	3,629,371	1,515,481	300,949	14,337,740	13,293,330
Trade and other payables (excluding receipts in advance)	10,690,923	21,261	–	–	10,712,184	10,712,184
Amounts due to related parties	956,391	–	–	–	956,391	956,391
	20,539,253	3,650,632	1,515,481	300,949	26,006,315	24,961,905

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 1(c).

(ii) Sensitivity analysis

Bank loans and loans from other financial institutions of RMB6,358,644,000 were secured by the Group's certain investment properties, investment properties under development, properties under development for sale and completed properties held for sale with total carrying amounts of RMB23,747,906,000 at 31 December 2019. If the fair value of these pledged properties decreased by 10%, with all other variables held constant, the Group considered it has sufficient collateral to support the roll-over or refinancing of such banking facilities when they fall due. In making this sensitivity analysis, the Group has considered, among other things, the nature and the value of its overall property portfolio, including those properties that are currently not pledged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The interest rates and terms of repayment of interest-bearing borrowings of the Group are disclosed in note 25 to the consolidated financial statements. The Group does not carry out any hedging activities to manage its interest rate exposure.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2019		2018	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Lease liabilities (Note)	4.75%	25,721	–	–
Interest-bearing borrowings	4.00% – 14.00%	14,405,639	4.00% –11.03%	10,400,162
		14,431,360		10,400,162
Variable rate borrowings:				
Interest-bearing borrowings	3.95% – 10.11%	4,084,974	4.44% –10.10%	3,825,782
Total borrowings		18,516,334		14,225,944
Fixed rate borrowings as a percentage of total borrowings		78%		73%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 1(c).

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB15,319,000 (2018: RMB14,680,000) in response to the general increase/decrease in interest rates, which has not taken into account of interest capitalisation to property for sales.

For the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The management does not expect that there will be any significant currency risk for the Group for the years ended 31 December 2019 and 2018.

(e) Equity price risk

The Group is exposed to equity price changes arising from listed equity investments classified as financial assets at fair value through profit or loss (see note 18).

The Group's listed investments are listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the stock market index as well as the Group's liquidity needs.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the contingent consideration of the Group for the acquisition of Shenzhen Sinoagri.

At 31 December 2019, it is estimated that an increase/(decrease) of 10% in the relevant stock market index (for listed investments) and the Company's own share price (for contingent consideration) as applicable, with all other variables held constant, would have increase/(decrease) the Group's profit after tax and retained profits as follows:

	2019		2018	
		Effect on profit after tax and retained profits RMB'000		Effect on profit after tax and retained profits RMB'000
Changes in the relevant equity price risk variable:				
Increase	**10%**	**27,726**	10%	124,032
Decrease	**(10%)**	**(27,726)**	(10%)	(124,032)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Assets:								
– Listed equity securities	95,287	95,287	–	–	968,187	968,187	–	–
– Wealth management products and trust products	4,214,546	14,000	4,200,546	–	3,388,360	–	3,388,360	–
– Forward contracts	295,525	–	295,525	–	141,051	–	141,051	–
– Contingent consideration	189,606	–	–	189,606	287,757	–	–	287,757
– Equity investments at fair value through other comprehensive income	8,702	–	8,702	–	8,702	–	8,702	–
Liabilities:								
– Forward contracts	295,525	–	295,525	–	141,051	–	141,051	–
– Contingent consideration	876	–	–	876	1,276	–	–	1,276
– Convertible redeemable preference shares of a subsidiary	19,273	–	–	19,273	59,024	–	–	59,024

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of equity investment at fair value through other comprehensive income is determined under the market approach.

The fair value of forward contract is determined under discounted cash flow method.

The fair value of wealth management products and trust products in Level 2 is determined by discounting the estimated future cash flows at risky rate, which is the benchmark interest rate plus the risk premium as at the end of the reporting period.

Information about Level 3 fair value measurements

	Valuation Significant techniques	Significant unobservable inputs	Input value
Contingent consideration for acquisition of Shenzhen Sinoagri	Probabilistic method	Occurrence probability of financial forecasts, financial forecast	80% (base case); 10% (bull and bear cases)
Contingent consideration for acquisition of HSH	Probabilistic method	Occurrence probability of financial forecasts, financial forecast	70% (base case); 20% (bull case); 10% (bear case)
Convertible redeemable preference shares	Option-pricing model	Financial forecasts	Not applicable

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(f) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Information about Level 3 fair value measurements (continued)

The movements during the year in the balances of these Level 3 fair value measurements are as follows:

	2019 RMB'000	2018 RMB'000
Contingent consideration		
Balance at 1 January	286,481	6,915
Assumed in a business combination	–	42,914
Acquisition of non-controlling interests (note 35(a))	76,135	–
Net change in fair value (note 4)	(165,722)	251,298
Settlement	(8,164)	(14,646)
Balance at 31 December	188,730	286,481

	2019 RMB'000	2018 RMB'000
Convertible redeemable preference shares of a subsidiary		
Balance at 1 January	59,024	–
Assumed in a business combination	–	79,737
Exchange difference	(2,034)	5,767
Redemption	–	(12,431)
Net change in fair value (note 4)	(37,717)	(14,049)
Balance at 31 December	19,273	59,024

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2019 and 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

32 COMMITMENTS

(a) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000
Within 1 year	15,106
After 1 year but within 5 years	20,639
	35,745

The Group is the lessee in respect of a number of properties held under leases which 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 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(l), and the details regarding the Group's future lease payments are disclosed in note 26.

(b) Capital commitments on development costs

As at 31 December 2019, the Group's capital commitments in respect of investment properties under development and properties under development are as follows:

	2019 RMB'000	2018 RMB'000
Contracted but not provided for		
– Investment properties under development	85,740	137,887
– Properties under development	1,955,259	1,590,514
	2,040,999	1,728,401

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

33 CONTINGENT LIABILITIES

	2019 RMB'000	2018 RMB'000
Bank financial guarantees	–	171,088
Other non-bank financial guarantees	–	96,980
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties (i)	514,692	688,759
Other financial guarantee (ii)	30,000	-
Total maximum guarantees issued	544,692	956,827

(i) The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to the banks. The Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the buyers obtained the individual property ownership certificate and the full settlement of mortgage loans by the buyers.

The directors of the Company consider that it is not probable that the Group will sustain a loss under these guarantees as the Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The directors of the Company also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

(ii) The Group provided a financial guarantee of RMB30,000,000 to a third party and bank deposits of RMB30,000,000 was pledged as at 31 December 2019 (2018: nil).

The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere, the Group and the Company entered into the following material related party transactions.

Ultimate Controlling Party refer to Mr. Yan Zhi. He is the co-chairman, co-chief executive officer and an executive director of the Group.

(a) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8 is as follows:

	2019 RMB'000	2018 RMB'000
Wages, salaries and other benefits	15,792	13,587
Contribution to defined benefit retirement scheme	461	433
Equity-settled share-based payment expenses	10,975	71,945
	27,228	85,965

The above remuneration to key management personnel is included in "staff costs" (note 5(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties

		2019 RMB'000	2018 RMB'000
(i)	Advances from related parties		
	– Immediate Parent	3,230	459,853
	– Associates	87,480	2,260
	– Joint ventures	–	30,000
	– Entities controlled by Ultimate Controlling Party	241,807	316,640
	– An entity controlled by a director	10,000	–
(ii)	Repayments to related parties		
	– Immediate Parent	–	93,753
	– Joint ventures	–	177,634
	– Associates	57,389	–
	– Non-controlling interests of subsidiaries	307,019	1,253
	– Entities controlled by Ultimate Controlling Party	450,044	39,695
	– Entities controlled by non-controlling interests of subsidiaries	–	114,200
(iii)	Advances to related parties		
	– Associates	681,502	76,731
	– Joint ventures	2,310,956	1,098,732
	– Entities controlled by Ultimate Controlling Party	612,213	4,478
(iv)	Repayment from related parties		
	– Associates	137,414	10,872
	– Joint ventures	2,199,351	1,038,467
	– Entities controlled by Ultimate Controlling Party	433,156	2,648
	– Non-controlling interests of subsidiaries	30,603	–
(v)	Rental income		
	– Entities controlled by Ultimate Controlling Party	39,455	36,653
(vi)	Place deposits in		
	– A bank significantly influenced by Ultimate Controlling Party	18,667,944	14,256,179
	Withdraw deposits from		
	– A bank significantly influenced by Ultimate Controlling Party	(18,703,950)	(14,420,391)
(vii)	Sales of commodities to related parties		
	– Associates	242,375	280,356
	– Entities controlled by Ultimate Controlling Party	–	17
(viii)	Purchase of commodities from related parties		
	– Associates	146,162	167,827
	– Entities controlled by non-controlling interests of subsidiaries	83,503	–
(ix)	Logistics and marketing services provided to a related party		
	– An associate	79,154	111,796

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34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balance with related parties

	2019 RMB'000	2018 RMB'000
Factoring receivables		
– an entity controlled by Ultimate Controlling Party	–	20,167
– an associate	24,277	–
	24,277	20,167

	2019 RMB'000	2018 RMB'000
Loans to		
– associates	76,373	61,278
– non-controlling interests of a subsidiary	–	7,506
	76,373	68,784

Loans to related parties as at 31 December 2019 bear interest of 8.4% per annum (2018: from 5% to 11%). Loans of RMB76,373,000 are secured by agriculture products as at 31 December 2019 (2018: RMB51,291,000). The remaining loans are unsecured.

	2019 RMB'000	2018 RMB'000
Trade prepayment to		
– associates	40,261	23,963
– an entity controlled by Ultimate Controlling Party	–	17
– entities controlled by non-controlling interests of subsidiaries	84,135	–
	124,396	23,980

	2019 RMB'000	2018 RMB'000
Amounts due from related parties		
– associates	630,197	86,154
– joint ventures	182,744	71,139
– non-controlling interests of subsidiaries	–	30,603
– entities controlled by Ultimate Controlling Party	2,942	4,259
– key management personnel	5,036	1,138
	820,919	193,293

The amounts due from related parties are unsecured and repayable on demand.

Amounts due from an associate of RMB79,830,000 as at 31 December 2019 bear interest of 3.5% per annum (2018: nil). Amounts due from joint ventures of RMB115,689,000 as at 31 December 2019 bear interest of 5.4% per annum (2018: nil). All the other amounts due from related parties as at 31 December 2019 were interest free.

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34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balance with related parties (continued)

	2019 RMB'000	2018 RMB'000
Deposits in		
– a bank significantly influenced by Ultimate Controlling Party	3,936	39,942

	2019 RMB'000	2018 RMB'000
Contract liabilities – Trade of agriculture products		
– an associate	–	27,439

	2019 RMB'000	2018 RMB'000
Interest-bearing borrowings		
– an associate	–	11,000
– a joint venture (note 25(c))	3,242	–
	3,242	11,000

	2019 RMB'000	2018 RMB'000
Amounts due to related parties – Current		
– associates	31,831	2,260
– non-controlling interests of subsidiaries	26	307,026
– entities controlled by Ultimate Controlling Party	52,894	277,105
– Ultimate Controlling Party	–	3,900
– Immediate Parent	–	366,100
– key management personnel	321	–
– entities controlled by a director	10,000	–
	95,072	956,391

The amounts due to related parties are unsecured, interest-free and repayable on demand.

	2019 RMB'000	2018 RMB'000
Amounts due to related parties – Non-current		
– Ultimate Controlling Party	3,900	–
– Immediate Parent	369,330	–
	373,230	–

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34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balance with related parties (continued)

	2019 RMB'000	2018 RMB'000
Loans guaranteed by		
– entities controlled by Ultimate Controlling Party	120,000	140,000
– a director of the Company	304,000	–
– an entity controlled by non-controlling interests of subsidiaries	120,000	–
	544,000	140,000

No guarantee income was charged by related parties for the guarantee of loans.

(d) Applicability of the Listing Rules relating to connected transactions

Save for the related party transactions in respect of transactions 34(b)(v) and 34(b)(vi) above, none of the related party transactions set out above constitutes connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For details of the related party transactions 34(b)(v) and 34(b)(vi) above, please refer to the section "Continuing Connected Transaction" of the Directors' Report. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions of the Group.

35 ACQUISITION OF NCI

(a) On 28 October 2016, the Group entered into an acquisition agreement with several vendors, pursuant to which the Group agreed to purchase 60.49% equity interest of Shenzhen Sinoagri at a consideration up to HKD2.591 billion, which will be satisfied by allotment and issue of the Company's shares. The acquisition is required to be completed in two tranches and involves post-acquisition performance-based contingent considerations. On 28 June 2017, the first tranche of the acquisition was completed and 517,227,000 ordinary shares of the Company were allotted and issued in exchange for 50.6% equity interest of Shenzhen Sinoagri and Shenzhen Sinoagri became a subsidiary of the Group accordingly.

On 10 June 2019, 101,094,000 ordinary shares were issued for acquisition of 9.89% equity interest of Shenzhen Sinoagri, increasing the Group's ownership in Shenzhen Sinoagri from 50.6% to 60.49%. As the second tranche of the acquisition completed as at 10 June 2019, post-acquisition performance-based contingent consideration of RMB76,135,000 for the second tranche of the acquisition was recognised and derivative of RMB124,328,000 related to the obligation for the second tranche acquisition was derecognised, respectively. The carrying amount of Shenzhen Sinoagri's net assets in the Group's consolidated financial statements as at 10 June 2019 was RMB1,275,489,000.

	Note	RMB'000
Carrying amount of NCI acquired		126,146
Consideration, satisfied by		
– Equity instruments	30(b)(i)	172,362
– Contingent consideration	31(f)(i)	(76,135)
		29,919
Derecognised of derivative financial instrument in relation to the 9.89% additional acquisition obligation		(124,328)
Decrease in equity attributable to equity shareholders of the Company in 2019		(94,409)

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35 ACQUISITION OF NCI (continued)

(b) On 31 December 2019, the Group acquired an additional 8.36% interest in Shenzhen Sinoagri, increasing its ownership from 60.49% to 68.85%. The carrying amount of Shenzhen Sinoagri's net assets in the Group's consolidated financial statements on the date of the acquisition was RMB1,261,912,000.

	RMB'000
Carrying amount of NCI acquired	105,496
Consideration, satisfied by cash	(312,729)
	(207,233)
Amount charged to equity before 2019	307,000
Increase in equity attributable to equity shareholders of the Company in 2019	99,767

36 DISPOSAL OF SUBSIDIARIES

Disposal of total equity interest of Zalljinfu Information Technology (Wuhan) Co., Ltd. ("Zalljinfu Information Technology") and 35% equity interest of Zhong Bang Financial Leasing Co., Ltd. ("Zhong Bang Financial Leasing")

On 30 June 2019, the Group entered into two disposal agreements with Zhong Bang Asset Management Co., Ltd. ("Zhong Bang Asset Management", a connected person of the Company which is controlled by Ultimate Controlling Party of the Company) in relation to disposal total equity interest of Zalljinfu Information Technology and 35% equity interest of Zhong Bang Financial Leasing at a consideration of RMB21,000,000 and RMB44,000,000, respectively. Zalljinfu Information Technology owned 65% equity interest of Zhong Bang Financial Leasing. Together with its subsidiaries including Zhong Bang Financial Leasing, Zalljinfu Information Technology is principally engaged in asset management, insurance agent and related consulting business and guarantee business and provision of finance leasing service.

The disposal of total equity interest of Zalljinfu Information Technology was completed in July 2019. The Group recognised a net gain of RMB1,423,000 on the disposal, which is calculated as follows:

	RMB'000
Net assets disposed	67,490
Less: Non-controlling interests	47,913
	19,577
Consideration, satisfied in cash	21,000
Gain on disposal of subsidiaries	1,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

36 DISPOSAL OF SUBSIDIARIES (continued)

Disposal of total equity interest of Zalljinfu Information Technology (Wuhan) Co., Ltd. ("Zalljinfu Information Technology") and 35% equity interest of Zhong Bang Financial Leasing Co., Ltd. ("Zhong Bang Financial Leasing") (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the above disposal of the equity interests is as follows:

	RMB'000
The aggregate cash consideration	21,000
Cash and cash equivalents disposed of	(3,822)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	17,178

The disposal of 35% equity interest of Zhong Bang Financial Leasing is not completed as at 31 December 2019 and is classified as a non-current asset held for sale.

Disposal of total equity interest of Wuhan North Hankou Guarantee Investment Co., Ltd. ("Wuhan Guarantee Investment")

On 2 August 2019, the Group entered into a disposal agreement with Zhong Bang Asset Management, pursuant to which the Group agreed to dispose total equity interest of Wuhan Guarantee Investment at a consideration of RMB198,000,000.

The disposal of total equity interest of Wuhan Guarantee Investment were completed in August 2019. The Group recognised a net loss of RMB2,713,000 on the disposal, which is calculated as follows:

	RMB'000
Net assets disposed	200,713
Consideration, satisfied in cash	(198,000)
Loss on disposal of a subsidiary	2,713

An analysis of the net inflow of cash and cash equivalents in respect of the above disposals of the equity interests is as follows:

	RMB'000
The aggregate cash consideration	198,000
Cash and cash equivalents disposed of	(6,707)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	191,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

37 ACQUISITION OF A SUBSIDIARY

On 12 November 2019, the Group entered into an acquisition agreement with Hubei Huazhong Cotton Trade Centre Co. Ltd. ("Huazhong Cotton Trade Centre", a connected person of the Company which is controlled by Ultimate Controlling Party of the Company), pursuant to which Huazhong Cotton Trade Centre agreed to sell and the Group agreed to purchase the entire equity interest in CCTC (Taicang) Cotton Co. Ltd. ("CCTC (Taicang)"), at a consideration of RMB30,964,000. CCTC (Taicang) principally engages in online sales of textile raw materials and products, warehousing services and distribution of cotton raw materials and products. The transaction was complete on 26 November 2019.

From the post acquisition date to 31 December 2019, CCTC (Taicang) contributed revenue of nil and loss of RMB198,000 to the Group's results. If the acquisition had occurred on 1 January 2019, management estimates that consolidated revenue would have been RMB73,451,499,000 and consolidated profit for the year would have been RMB57,665,000.

	Recognised value on acquisition RMB'000
Cash and cash equivalents	11
Trade and other receivables	31,861
Contract liabilities	(1,101)
Trade and other payables	(191)
Total identifiable net assets acquired	30,580
Consideration	
– cash paid	30,964
Goodwill arising on acquisition	384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

38 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current assets			
Interests in subsidiaries	14	3,197,898	3,066,815
Property, plant and equipment		8,065	–
		3,205,963	3,066,815
Current assets			
Cash and cash equivalents		61,238	57,987
Trade and other receivables, prepayments		1,246,961	1,205,490
		1,308,199	1,263,477
Current liabilities			
Trade and other payables		412,468	415,408
Lease liabilities		3,274	–
		415,742	415,408
Net current assets		892,457	848,069
Total assets less current liabilities		4,098,420	3,914,884
Non-current liabilities			
Lease liabilities		4,908	–
NET ASSETS		4,093,512	3,914,884
CAPITAL AND RESERVES	30		
Share capital		32,733	32,437
Reserves		4,060,779	3,882,447
TOTAL EQUITY		4,093,512	3,914,884

Note: The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

39 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2019, the directors consider the Immediate Parent and Ultimate Controlling Party of the Group to be Zall Development Investment Company Limited ("Zall Development Investment") and Mr.Yan Zhi respectively. Zall Development Investment does not produce financial statements available for public use.

40 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

41 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. The Pandemic has led to a decrease in transaction amount and volume on various online commodity trading platforms operated by the Group and slowered down the recovery of receivables which negatively influenced the working capital. The Pandemic also has led to a temporary closure of offline commodity trading markets operated by the Group (such as the North Hankou International Trade Centre in Wuhan, Hubei province) and possible delay in construction progress of property development projects in Tianjin and Jingzhou. In view of the aforesaid impacts, the Group has been closely communicating with the suppliers on its online commodity trading platforms and offered certain concessionary measures to the tenants in the North Hankou International Trade Centre in order to assist and facilitate them. With the gradual lifting of restrictions by the local government in Wuhan in or around the early April, the North Hankou International Trade Centre has resumed in operations recently.

The disruptions of operation of offline commodity trading markets may lead to decrease in rental income from the Group's investment properties and the fair value of the Group's investment properties could be impacted. Management of the Group considered that the operation of offline commodity trading markets is recovering and the impact of Pandemic to commercial properties in Wuhan is reducing. The impact of Pandemic on the fair value of the Group's investment properties may have consequential impacts on the Group's result for 2020. The Group will continuously monitor the situation of the Pandemic, assess and react actively to its impacts on the financial position and operating results of the Group.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

MAJOR PROPERTIES INFORMATION

As at 31 December 2019

THE GROUP'S PROPERTY PORTFOLIO SUMMARY — MAJOR PROPERTIES UNDER DEVELOPMENT

	Project	Location	Expected date of completion	Intended use	Site area (sq.m.)	Gross Floor Area (sq.m.)	Group's interest (%)	Completion percentage
1	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Dec-2021	Commercial	302,408	318,366	100%	Undeveloped – 99%
2	No. 1 Enterprise Community (Phase IV)	Te No. 1 Chutian Road, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Dec-2024	Commercial	394,882	618,883	100%	1%
3	Zall Life City – Hupan Haoting Residences (Phase II)	Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei	Dec-2020	Residential	59,793	117,980	100%	88%
4	No.1 Enterprise Community – Changsha (Phase II)	Zhiji Village, Xingangzhen Kaifu District, Changsha, Hunan Province, PRC	Jul-2023	Commercial	177,434	297,991	80%	5%
5	Portion of Jingzhou Zall City	Jinan Zhen, Sanhong Village, Jingzhou District, Jingzhou City, Hubei Province, PRC	Jun-2021	Commercial	137,802	229,006	100%	85%
6	Tianjin E-commerce Mall (Area C)	Xijing District, Qingwu Xuefu Industrial Park, Tianjin City, PRC	Dec-2020	Commercial	24,505	39,244	100%	99%
7	Wuhan Inland Port Centre (Phase I)	Shigang Village, Yangluo Street, Xinzhou District, Wuhan, Hubei Province, PRC	Jul-2021	Logistic Center	364,358	126,857	100%	83%
8	Tianjin Zall	Xijing District, Qingwu Xuefu Industrial Park, Tianjin City, PRC	Dec-2022	Commercial	106,982	265,903	100%	10%
9	North Hankou Big Mansion	Lindian Interchange, Panlongcheng Economics and Technology Development Zone Huangpi District, Wuhan, Hubei Province, PRC	Dec-2023	Commercial	32,077	172,198	100%	10%

MAJOR PROPERTIES INFORMATION

As at 31 December 2019

THE GROUP'S PROPERTY PORTFOLIO SUMMARY — MAJOR COMPLETED PROPERTIES HELD FOR SALE

	Project	Location	Existing use	Gross Floor Area (sq.m.)	Group's interest (%)
1	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Shops	260,884	100%
2	Portion of North Hankou International Trade Center – Automobile Big World	Liudian and Shekou Villages, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Shops	34,785	100%
3	Portion of No. 1 Enterprise Community (Phase I, II & III)	Te No. 1 Chutian Road, Panlongcheng Economics Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Office	28,160	100%
4	Zall Life City – Hupan Haoting Residences	Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Residential	14,736	100%
5	Portion of Jingzhou Zall City	Jinan Zhen, Sanhong Village, Jingzhou District, Jingzhou City, Hubei Province, PRC	Shops	8,504	100%
6	No. 1 Enterprise Community – Changsha (Phase I)	Zhiji Village, Xingangzhen Kaifu District, Changsha, Hunan Province, PRC	Office	10,486	80%

MAJOR PROPERTIES INFORMATION

As at 31 December 2019

THE GROUP'S PROPERTY PORTFOLIO SUMMARY — MAJOR PROPERTIES HELD FOR INVESTMENT

	Project	Location	Stage of completion	Lease Term of land	Approximate gross floor area (sq.m.)	Group's interest (%)
1	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	1,501,849	100%
2	Portion of North Hankou International Trade Center	Liudian and Shekou Villages, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Under development	Medium	19,163	100%
3	Portion of North Hankou International Trade Center – Automobile Big World	Liudian and Shekou Villages, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	217,338	100%
4	North Hankou Logistics Center	Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	25,550	100%
5	North Hankou Logistics Center	Jiangjunlu street, Dongxihu District, Wuhan, Hubei Province, PRC	Under development	Medium	18,354	100%
6	Portion of No. 1 Building Portion of No. 1 Building Community	Te No. 1 Chutian Road, Panlongcheng Economic and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	83,243	100%
7	Portion of Commercial Street of No. 1 Enterprise Community	No. 18 Julong Road, Panlongcheng Economics and Technology Development Zone, Huangpi District, Wuhan, Hubei Province, PRC	Completed	Medium	45,086	100%
8	Portion of Tianjin E-commerce Mall (Area A & B)	Phase I, International Trade Centre, Tianjin E-commerce City, 32 Chuangxin Road, Xijing District, Tianjin City, PRC	Under development	Medium	519,458	100%
9	No.1 Enterprise Community – Changsha (Phase I)	Zhiji Village, Xingangzhen Kaifu District, Changsha, Hunan Province, PRC	Completed	Medium	45,901	80%
10	Portion of Jingzhou Zall City	Jinan Zhen, Sanhong Village, Jingzhou District, Jingzhou City, Hubei Province, PRC	Completed	Medium	62,908	100%

FINANCIAL SUMMARY

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Result					
Revenue	72,898,756	56,116,072	22,249,176	1,213,375	1,029,482
Gross Profit	1,224,911	1,559,600	1,012,255	361,307	271,210
Net valuation gain on investment properties	2,533,075	3,865,192	3,021,326	1,275,697	1,237,742
Profit for the year attributable to:					
Equity shareholders of the Company	92,797	1,371,304	2,379,077	2,048,951	2,037,727
Non-controlling interests	(35,278)	(97,397)	(22,595)	7,620	8,261
Profit for the year	57,519	1,273,907	2,356,482	2,056,571	2,045,988
Financial position					
Total assets	61,489,239	53,081,118	47,343,628	29,747,649	23,769,619
Total liabilities	41,866,765	33,472,305	28,682,741	17,608,417	13,459,088
Non-controlling interests	543,480	829,221	879,677	34,685	842,063
Total equity attributable to equity shareholders of the Company	19,078,994	18,779,592	17,781,210	12,104,547	9,468,468
Total Equity	19,622,474	19,608,813	18,660,887	12,139,232	10,310,531