RENHE

Renhe Commercial Holdings Company Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1387

2018
ANNUAL REPORT

Contents

Corporate Information

Directors

Executive Directors

Wang Yan (Chairman)
Dai Bin (Chief Executive Officer)

Non-Executive Directors

Yin Jianhong
Yang Yuhua

Independent Non-Executive Directors

Fan Ren-Da, Anthony
Wang Yifu
Leung Chung Ki
Tang Hon Man

Audit Committee

Fan Ren-Da, Anthony (Chairman)
Wang Yifu
Yang Yuhua

Remuneration Committee

Tang Hon Man (Chairman)
Wang Yan
Wang Yifu

Nomination Committee

Tang Hon Man (Chairman)
Wang Yan
Wang Yifu

Authorised Representatives

Wang Yan
Hung Fan Kwan FCPA, FCCA

Company Secretary

Hung Fan Kwan FCPA, FCCA

Auditors

KPMG
Certified Public Accountants

Registered Office

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

Principal Place of Business in Hong Kong

Suites 1701–1703
One IFC
1 Harbour View Street
Central
Hong Kong

China Office

No. 279, Xuefu Road
Nangang District
Harbin, Heilongjiang
China

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

The Stock Exchange of Hong Kong Limited: 1387

Investor Relations

Company Website: www.renhebusiness.com
Email: ir@renhe.com.hk

Chairman's Statement

2018 marked the 10th anniversary of Renhe Commercial Holdings Company Limited's listing on the Hong Kong Stock Exchange. Over the past decade, the Company had experienced ups and downs along with tremendous changes in the international and domestic economic environment. Amid these changes and challenges, the Company managed to assess the situation and made continuing strategic adjustments by shifting the principal business from underground shopping malls operation to agriculture product wholesale and distribution business. The agriculture wholesale market business has a huge market with steady growth, and is fully supported by the State's policies. At the end of 2018, the Company set a brand new direction to become "an advanced fresh food circulation service provider and supplier", signaling the start of a new journey of business development.

To build a reserve of quality assets and establish strategy for transformation

To achieve the strategic goal of becoming a leading player in the industry, the Company is constantly looking for quality resources within the agriculture wholesale industry. In 2018, we acquired three wholesale markets in Hangzhou, China (the "Hangzhou Acquisition"), from an independent third party for HK$1.47 billion, as well as the land and properties where our seven wholesale markets have been operating (the "Hada Acquisition") from the related parties of the controlling shareholder for RMB5.4 billion. Completion of the Hangzhou Acquisition took place in July 2018, while completion of the Hada Acquisition is still pending on satisfaction of all conditions precedent. The acquisitions not just enlarge the Company's geographical coverage, they also further enhance the Company's brand and market influence within the agriculture wholesale sector in China.

After a comprehensive study and analysis of the State's policies, the Company acquired a profound understanding of the current situation and the future development trend of the agriculture industry. In the second half of 2018, the Company formally put forward a new business strategy by transforming and upgrading our existing wholesale markets. That is to say, "the Company will build an integrated fresh food distribution service system based on our existing agriculture products wholesale markets and our customer resources, which will be further empowered by technologies and services. The goal is to transform ourselves of being 'a conventional property developer for fresh agriculture products' to 'an advanced fresh food circulation service provider and supplier', striving to increase the overall efficiency and benefit of fresh distribution and supply in China." In the future, the Company will create differentiated competitive advantages with integrated services, up-to-date technology application, intensive operation and food safety assurance system, so to establish our brand new fresh food distribution strategy featuring the "Production — Distribution — Retail" all-in-one distribution platform.

Chairman's Statement

Empowerment of China's food distribution system and to become leader of the industry

2019 marks the first year of the implementation of the Group's transformation and upgrade strategy. We will first start with the optimization of the Company's organizational structure by establishing a new set of management and business operations system covering five major areas, namely human resources, financial management, information technology, corporate culture and brand promotion. We will enhance our business model to a "full-function fresh food distribution" platform by empowering with services and product innovation, advanced customer services, information technology and support, training for professionals and talents, supply capabilities as well as setting industry standards. In terms of business development, we must first complete the acquisition of the land and properties where the existing seven agricultural wholesale markets are operating, and accelerate the expansion of new markets. Secondly, we will complete the building of a digital online platform for the integrated fresh distribution services, and take the lead in launching this digital online platform in our own agricultural wholesale markets.

In 2019, all our team members will focus on the idea of "empowering the food distribution (賦能食品流通)" as their first priority. All of us are devoted and keep striving for the vision to become the most trusted provider of fresh food distribution services to the producers, distributors and consumers, and will be making unremitting efforts to reduce the costs of the fresh food distribution industry and increase the efficiency and benefit of fresh food distribution in China!

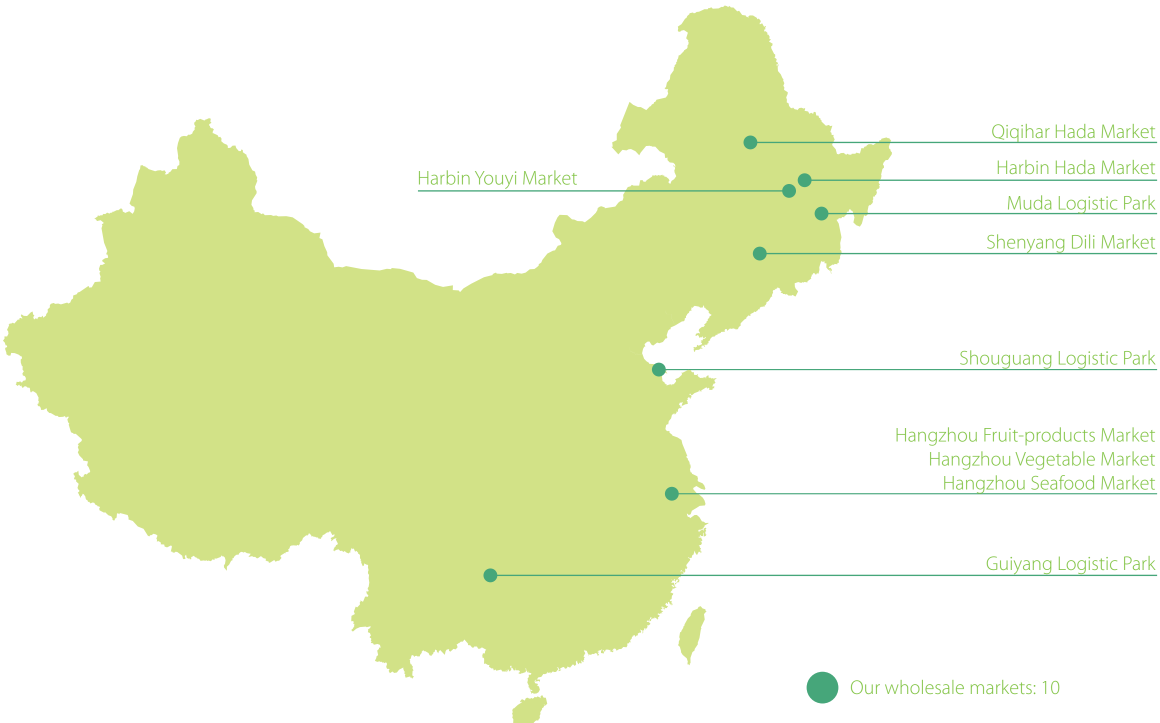
Finally, I would like to make special thanks to Mr. Dai Yongge, our former Chairman, for his outstanding contributions and support to the Company over the past decade. I would like to express my heartfelt gratitude to all our shareholders, directors and business partners for their trust and support, as well as to the management and all of our staff for their diligence and dedication. I am eagerly looking forward to working with you side by side, standing together regardless of situation in order to make the Company's great ideal of becoming "an advanced fresh food circulation service provider and supplier" come true!

Wang Yan
Chairman

Management Discussion and Analysis

Our Business

The Group currently operates 10 wholesale markets in 7 cities in the People's Republic of China (the "PRC").



Heilongjiang Dili Logistic Park Cluster (黑龍江地利物流園集群) (the "Heilongjiang Dili Cluster")

Multi-level markets with focus on regional coverage and foreign trade

The Heilongjiang Dili Group includes 4 markets in Heilongjiang Province, including (1) Harbin Hada Agricultural Produce and Side Products Market (哈爾濱哈達農副產品批發市場) ("Harbin Hada Market") which forms the core of the group, supported by (2) Qiqihar Hada Agricultural Produce Market (齊齊哈爾哈達農產品市場) ("Qiqihar Hada Market"); (3) Muda International Agricultural Produce Logistic Park (牡丹江國際農產品物流園) ("Muda Logistic Park") and (4) Harbin Youyi Agricultural Produce Market (哈爾濱友誼農產品市場) ("Harbin Youyi Market"). These four markets form a multi-level cluster.

The geographical reach of the Heilongjiang Dili Cluster covers more than 50 cities and counties in Heilongjiang Province, Jilin Province, East of Inner Mongolia region.

Muda Logistic Park, which is part of the Heilongjiang Dili Cluster, focuses on Sino-Russian trade activities.

No. of wholesale markets	Total GFA#	Total annual trading volume
4	Approximately 368,851 sq.m. (note)	Approximately 2.3 million tonnes

"GFA" represents Gloss Floor Area.

Note: Including property leased from the associated entity controlled by the Group's controlling shareholder and property leased from independent third party.

Management Discussion and Analysis

Shenyang Shouguang Dili Agricultural Produce and Side Products Market (瀋陽壽光地利農副產品市場) ("Shenyang Dili Market")

The largest transit center for agricultural products in Northeast China & fruits logistics hub

Shenyang Dili Market consists of two large markets, namely Shenyang Fruit Market and Shenyang Fruit and Vegetable Market, and two smaller markets for commodity and condiments, and seafood respectively. Shenyang Dili Market provides full categories of all agricultural produce. Shenyang Fruit Market is an old market where its operation dates back to mid-1990s. The Shenyang Dili Market is located in Dadong District within the city of Shenyang.

Shenyang Dili Market supplies more than 90% of local fruit market, and 50% the fruits from the market is supplied to the three provinces of Northeast China and Inner Mongolia region.

Shenyang Dili Market plays a decisive role in Northeast China as it's the major transit center for agricultural produce in Northeast China as well as the largest fruits logistics hub in Northeast China.

No. of wholesale markets	Total GFA#	Total annual trading volume
1 (divided into several markets for different commodities)	Approximately 235,123 sq.m. (note)	Approximately 2.3 million tonnes

Note: Including property leased from the associated entity controlled by the Group's controlling shareholder and property leased from independent third party.

China Shouguang Agricultural Produce Logistic Park (中國壽光農產品物流園) ("Shouguang Logistic Park")

Largest integrated agriculture logistics park in Asia

Shouguang Logistic Park is currently the largest integrated agriculture logistic park in Asia in terms of gross floor area. The park is divided into 6 functional zones, including fruit trading, vegetable trading, seeds trading and e-commerce business zones etc. Shouguang Logistic Park is the logistic hub of vegetable circulation linking the southern and northern part of China. It also serves as a key center nationwide for functions like national price setting for vegetables, trading information and logistic distribution.

The price indices created from the Shouguang Logistic Park serves as the approved national official price indices in China.

No. of wholesale markets	Total GFA#	Total annual trading volume
1	Approximately 537,003 sq.m.	Approximately 1.0 million tonnes

"GFA" represents Gloss Floor Area.

Hangzhou Dili Logistic Park Cluster (杭州地利集群) (the "Hangzhou Dili Cluster")

An innovative logistic park with electronic settlement & big data

The Hangzhou Dili Cluster consists of 3 markets, namely a fruit market, a vegetable market and a seafood market. The Hangzhou Dili Cluster is the largest agricultural produce wholesale market in Hangzhou.

The 3 markets within Hangzhou Dili Cluster were rebranded as Hangzhou Dili Logistic Park after completion of the Group's acquisition from an independent third party in July 2018.

The Hangzhou Dili Cluster has become a key logistic hub for agricultural produce within the Yangtze River Delta and surrounding regions. The supply of fruit, vegetable and seafood takes up approximately 70% of the local demand. At the same time, it serves a more extended area, including other cities in Zhejiang Province as well as Jiangsu Province, Anhui Province, Jiangxi Province, Hubei Province.

One of the prominent features of the Hangzhou Dili Cluster is the full implementation of electronic settlement as well as the big data system which collects, analyzes and makes use of trading and logistic data collected from the markets. The Hangzhou Dili Cluster is the pioneer in promoting integration and use of internet in the traditional agricultural wholesale business.

No. of wholesale markets	Total GFA#	Total annual trading volume
3	Approximately 245,017 sq.m.	Approximately 2.0 million tonnes

Guiyang Agricultural Produce Logistic Park (貴陽農產品物流園) ("Guiyang Logistic Park")

The logistic hub in Southwest China

Guiyang Logistic Park is our Group's only wholesale market in Southwest China. It includes large-scale vegetable and fruit market, as well as markets for frozen food, grain and oil and condiments.

Through years of our efforts, Guiyang Logistic Park has now become the largest agricultural produce distribution center among the nine provinces of Southwest and Northwest region of China and extended its geographical coverage to Guangxi Province, Hunan Province and Hubei Province.

Guiyang Logistic Park is an integrated wholesale market, it covers outward distribution of product produced locally, as well as inward sales of agricultural produce from the outside regions. It provides full categories of agricultural produce and distribution channels for the poverty alleviation programme promoted by the State.

No. of wholesale markets	Total GFA#	Total annual trading volume
1	Approximately 173,620 sq.m.	Approximately 2.0 million tonnes

"GFA" represents Gloss Floor Area.

Management Discussion and Analysis

Business Review

Acquisitions

During the year of 2018, the Group announced and our shareholders have approved (i) the acquisition of 3 agriculture wholesale markets in Hangzhou for a consideration of HKD1.47 billion from an independent third party (the "Hangzhou Acquisition"); and (ii) acquisition from an associate of our controlling shareholders for the land and properties on which the then 7 existing agriculture wholesale markets of the Group operated, for a consideration of RMB5.4 billion (the "Hada Acquisition").

Completion of the Hangzhou Acquisition took place on 24 July 2018 while completion of the Hada Acquisition is still pending on satisfaction (or waiver, if applicable) of all conditions precedent as at the date of printing of this annual report. The original long stop date for the completion of the Hada Acquisition was 31 December 2018 and the parties to the Hada Acquisition have agreed to extend such long stop date to 30 June 2019. Announcement for this extension has been made on 27 December 2018.

With the completion of the Hangzhou Acquisition in July 2018, the Group operated 10 agriculture wholesale markets in 7 cities in China as at 31 December 2018.

Details of each market are set out on pages 5 to 7 of this annual report and in the next section headed "Financial Review".

Potential acquisition

The Company also made an announcement on 11 September 2018 in respect of a potential acquisition of the equity stake in a company (the "Target Company") held by an associate of our controlling shareholder. The Target Company is principally engaged in the agriculture product wholesale and retail operations in China.

For the purpose of this potential acquisition, a non-legally binding memorandum of understanding was entered into among a subsidiary of the Company, an associate of our controlling shareholder (the "Potential Seller") and the Target Company, pursuant to which the Group has paid an aggregate sum of RMB400 million as deposit to the Potential Seller and the Target Company (the "Deposit") in return for a 180-day exclusive period (the "Exclusivity Period") for considering this acquisition. Deposit made would be fully refundable if no formal agreement could be reached upon expiry of the Exclusivity Period or if the potential acquisition could not complete.

On 7 March 2019, a further announcement was made to extend the Exclusivity Period for another 180 days (the "Extension"). No further deposit was made for the Extension and the Deposit paid is still being held by the Potential Seller and the Target Company respectively. As at the date of printing of this annual report, the Group is still considering this potential acquisition and no formal agreement has been entered into so far.

Financial Review

Revenue

Our revenue comprises commission income primarily based on either value of transactions or weight of products, which we charge to traders. We also earn lease income by leasing space at the warehouses, icehouses and other facilities we have at our markets to assist traders to store and pack their products, and from renting rooms at our on-site residential areas and motels to traders.

With the consolidation of the Hangzhou markets after the completion of acquisition on 24 July 2018, the Group recorded a consolidated revenue of approximately RMB1,128.7 million (2017: RMB988.1 million), representing an increase of about 14.2% when compared with that of last year. The commission income increased by 9.7% to RMB810.6 million in this year as compared to RMB738.9 million in last year while the lease income also increased by 27.7% to RMB318.1 million in this year as compared to RMB249.2 million in last year.

	2018 **RMB' million**	2017 RMB' million	Change RMB' million	Change %
Commission income	**810.6**	738.9	71.7	9.7
Lease income	**318.1**	249.2	68.9	27.7
Total	**1,128.7**	988.1	140.6	14.2

The analysis by agriculture wholesale markets:

	Note	**2018** **RMB' million**	2017 RMB' million	Change RMB' million	Change %
Harbin Hada Agricultural Produce Market		**287.5**	304.5	(17.0)	(5.6)
Qiqihar Hada Agricultural Produce Market	*i*	**30.3**	77.0	(46.7)	(60.6)
Muda International Agricultural Produce Logistic Park		**42.1**	44.0	(1.9)	(4.2)
Harbin Youyi Agricultural Produce Market		**23.8**	21.9	1.9	8.8
Shenyang Shouguang Dili Agricultural Produce and Side Products Market	*ii*	**290.2**	253.4	36.8	14.5
China Shouguang Agricultural Produce Logistic Park		**146.7**	137.9	8.8	6.4
Hangzhou Fruit-products Market		**66.9**	–	66.9	–
Hangzhou Vegetable Market		**60.4**	–	60.4	–
Hangzhou Seafood Market		**28.4**	–	28.4	–
Guiyang Agricultural Produce Logistic Park		**152.4**	149.4	3.0	2.0
Total		**1,128.7**	988.1	140.6	14.2

Notes:

i. The drop of revenue was due to keen competition in Qiqihar City during the year.

ii. The increase in revenue arose from improvement of sales mix with sales of more high end products.

Gross Profit

Gross profit margin of agriculture business was 100% as both lease income and commission income does not incur any cost of sales.

Other (Expenses)/Income

Other income mainly comprised market service fee of RMB126.8 million (2017: RMB117.7 million). In this year, there is a loss on disposal of property and equipment amounting to RMB189.2 million which were mainly due to disposal of two aircrafts. The disposal could save significant expenses incurred from the maintenance and usage of the aircrafts. This caused an one-off impact on earnings of this year but is expected to be beneficial to the Company in the long run.

Administrative expenses

Administrative expenses mainly comprised staff cost, depreciation and trip expenses. The total amount of depreciation and maintenance cost of the two aircrafts were RMB96.3 million (2017: RMB87.7 million). The increase was due to the acquisition of Hangzhou operations in July 2018 and more professional fee was incurred for the acquisition and rights issue exercise in this year.

Other operating expenses

Other operating expenses mainly consisted of amortization of intangible assets of RMB324.3 million (2017: RMB324.3 million) arose from the acquisition of the agriculture business and the operating lease expenses of RMB128.6 million (2017: RMB118.2 million) for leasing the properties (including land and buildings) to facilitate the on-going operations of the agriculture business in accordance with the Framework Lease Agreement entered during the acquisition of the agriculture business. The increase was mainly due to the acquisition of Hangzhou operations in July 2018.

Finance income

Finance income mainly represented the interest income earned from bank deposits and loans to third parties. The increase was mainly due to improvement of cash flow and there is excess funding for the Group.

Finance expenses

Finance expenses mainly represented bank interest and charges. The increase was due to the bank loan interest expenses of the Hangzhou operations acquired in this year.

Liquidity and Financial Resources

The Group has net cash position and strong financial resources to support its working capital and future expansion.

The maturity profile of the Group's interest-bearing borrowings as at 31 December 2018 are repayable as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**198,500**	–
After one year but within two years	**73,500**	–
After two year but within five years	**242,680**	–
After five years	**57,000**	–
	571,680	–

There was no material effect of seasonality on the Group's borrowing requirement. As at 31 December 2018, all the interest-bearing borrowings are denominated in RMB and the related interest rate structures are included in note 29(c) — Interest rate risk to the financial statements.

Capital Structure and Treasury Policy

The Group adopts a conservative policy in capital structure management. The Group closely monitors its cash flow position to ensure the Group has sufficient working capital available to meet the operational needs. It also takes into account the trade receivables, trade payables, bank balances and cash, administrative and capital expenditures to prepare the cash flow forecast to forecast its future financial liquidity.

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 29(d) — Foreign currency risk to the Financial Statements of this annual report.

Fund Raising Activities

On 5 June 2018, the Company proposed issuance of rights shares at a subscription price of HKD0.163 each on the basis of three rights shares for every ten existing shares held on 8 June 2018. On 17 July 2018, a total number of 13,189,830,130 new shares of the Company had been issued upon the completion of the rights issue. The net proceeds, after deducting all relevant expenses, raised from the rights issue were approximately HKD2.11 billion, which were applied towards the intended use of funding as stated in the circular to the shareholders of the Company dated 25 June 2018.

Use of Proceeds

As stated in the circular to the shareholders of the Company dated 25 June 2018, the Group had plans to use the proceeds obtained from the rights issue. The proceeds have been partially utilized. The amount applied to the intended use of proceeds and the residual balance to be used as at 31 December 2018 are as follows:

		Intended use of proceeds HKD' million	Used during the year HKD' million	**Residual balance to be used as at 31 December 2018 HKD' million**
(i)	Finance the Hangzhou Acquisition	1,470	(1,470)	**–**
(ii)	For enlarging the trading hall and rental area of the markets	300	–	**300**
(iii)	For upgrading infrastructure facilities of the markets	125	–	**125**
(iv)	For developing and installing information software and data collection and analysis systems in the markets	65	–	**65**
(v)	General working capital	150	(17)	**133**
		2,110	(1,487)	**623**

Charges on Assets

As at 31 December 2018, certain property and equipment and investment properties which had an aggregate carrying value of RMB1,289,532,000 were pledged as securities for interest-bearing borrowings of the Group.

Capital Commitment

As at 31 December 2018, the future capital expenditure for which the Group had contracted but not provided for amounted to approximately RMB16.8 million (as at 31 December 2017: amounted to RMB16.6 million) while the future capital expenditure for which the Group had authorized but not contracted for amounted to approximately nil (as at 31 December 2017: amounted to approximately nil).

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

Gearing Ratio

The gearing ratio as at 31 December 2018, which is calculated by dividing the total interest-bearing borrowings by total assets was 4.93% (as at 31 December 2017: Nil).

Human Resources

As at 31 December 2018, the Group employed 2,668 staff (as at 31 December 2017: 2,009 staff). The Group's employees are remunerated according to the job nature, individual performance and market trends with built-in merit components. Total remuneration for the year ended 31 December 2018 was approximately RMB349.2 million as compared with RMB249.7 million for the year ended 31 December 2017. We have established a training program that aims to support and encourage members of our management team to continue improving their management skills and develop their careers, including arranging for seminars. We provide orientation training as well as on-the-job training on a regular basis on various topics, such as internal regulations, computer and management skills, sales skills and career development. Employees in Hong Kong participate in Mandatory Provident Fund Scheme while employees in the PRC also participate in similar scheme.

Dividend

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2018 (2017: Nil).

Directors and Senior Management Profile

Executive Directors

Mr. WANG Yan (王岩), aged 53, was appointed as an Executive Director and the Chairman in September 2018. He is a member of the remuneration committee and nomination committee of the Board of the Company. Mr. Wang has vast experience in management of securities and financial companies via serving in management or administrative positions of various securities companies and banks and is primarily responsible for the Group's overall strategic planning and the management of the Group's business. Prior to joining to our Group, Mr. Wang served as executive director of China Merchants Securities Co., Ltd. ("China Merchants Securities") (the securities of which are listed on the Shanghai Stock Exchange ("SSE") with stock code: 600999 and the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with stock code: 6099) from December 2011 to August 2018. During such period, he also served as its president and chief executive officer from January 2012 to August 2018. From October 2011 to August 2018, he served as director of China Merchants Securities International Company Limited ("CMS International") and China Merchants Securities (HK) Co., Limited in succession. During such period, he also served as chairman of the board of directors of CMS International from September 2015 to August 2018. From December 2017 to February 2019, he served as director of China Merchants Securities Investment Co., Ltd.. From October 2011 to May 2014, he served as director of China Merchants Securities Investment Management (HK) Co., Limited, CMS Capital (HK) Co., Limited and China Merchants Nominees (HK) Co., Limited. From March 2005 to September 2011, he served as executive president and chief operating officer, acting chief executive officer, and executive president and chief executive officer of BOC International Holdings Limited. From April 2000 to January 2005, he served as deputy general manager of the Hong Kong branch of Industrial and Commercial Bank of China Limited ("ICBC") (the securities of which are listed on SSE with stock code: 601398 and the Main Board of the Stock Exchange with stock code: 1398). During such period, Mr. Wang also served as deputy general manager and alternative chief executive officer of Industrial and Commercial Bank of China (Asia) Limited (the securities of which were listed on the Main Board of the Stock Exchange with stock code: 349 but subsequently completed privatization in December 2010) from July 2001 to December 2004. From February 1997 to April 2000, he served as representative and chief representative of the New York representative office of ICBC. During July 1989 to February 1997, Mr. Wang held various positions at ICBC (Headquarter) including deputy director of the international finance division of the international business department and deputy director of office secretariat and secretary to the president etc. In addition to the above, Mr. Wang has also served as economic and technical consultant of the People's Government of Jilin Province since July 2012.

Mr. Wang obtained a bachelor's degree and a master's degree in law majoring in international law, and a doctoral degree in economics majoring in national economics, all from Peking University, in July 1986, July 1989 and January 2005, respectively. Mr. Wang was granted the title of Senior Economist by ICBC in August 1999.

Mr. DAI Bin (戴彬), aged 27, was appointed as the Chief Executive Officer in September 2018 and was also appointed as our Executive Director in June 2014. Mr. Dai is primarily responsible for operation and management of the Group's investments and financing. He graduated from University of New South Wales, Australia, with a bachelor's degree of commerce, major in finance in 2012.

Non-Executive Directors

Mr. YIN Jianhong (尹建宏), aged 61, was appointed as our Non-Executive Director in December 2018. He graduated with master degree in economics in Northwest University* (西北大學). Mr. Yin has over 40 years' experience in economic management. He has served as chairman of Renhe Investments Holdings Corporation Company Limited* (人和投資控股股份有限公司) since September 2018. He has also served as a director of Dili Agri-Products Investments Holdings Co., Ltd.* (地利農產品投資控股有限公司) and chairman of Shouguang Dili Agri-Products Group Company Limited since April 2014. Prior to this, Mr. Yin served as deputy director of State-owned Assets Supervision and Administration Commission of Xi'an City from October 2005 to November 2013. From February 1999 to September 2005, he served as president of Commercial Bank of Xi'an (currently known as Bank of Xi'an). From July 1992 to September 1996, he served as general manager of Shaanxi International Trust Co., Ltd.* (陝西省國際信託投資股份有限公司). From September 1986 to June 1992, he served as director of accounting division of the Shaanxi Branch of China Construction Bank. From October 1985 to August 1986, he was the principal of Shaanxi Shangluo Finance and Accounting School* (陝西省商洛財政會計學校).

* *For identification purpose only*

Ms. YANG Yuhua (楊玉華), aged 55, was appointed as our Non-Executive Director of the Company in December 2018. She is also a member of the audit committee of the Board of the Company. Ms. Yang graduated with master degree in finance in Shaanxi Institute of Finance and Economics* (陝西財經學院) (Shaanxi, PRC). She has been a senior economist as accredited by the PRC Ministry of Land and Resources since May 2003 and has over 35 years banking and finance experience. She used to serve as the chief financial officer at Saizhi (Tianjin) Properties Co., Ltd.* (賽智(天津)置業有限公司) from June 2006 to January 2013 and has served as its chief financial officer again since March 2017. From May 2014 to March 2017, she was a non-executive director of Shengjing Bank Co., Ltd., a company listed on the main board of the Stock Exchange with stock code: 2066. From January 2013 to March 2017, she served as deputy manager of the financial department of Beijing Zhaotai Group Co., Ltd.. From December 2001 to June 2006, she served as deputy manager of the inter-bank market department and senior investment manager of the Investment Management Centre of New China Life Insurance Co., Ltd.* (新華人壽保險股份有限公司投資管理中心). She successively served as deputy head, head and deputy chief of the funds division and the international business division of Inner Mongolia branch of Industrial and Commercial Bank of China from August 1983 to December 2001.

Independent Non-Executive Directors

Mr. FAN Ren-Da, Anthony (范仁達), aged 58, joined in 2007 as an independent Non-Executive Director of the Company. He is also the chairman of audit committee of the Board of the Company. Mr. Fan holds a Master's Degree in Business Administration from the USA. He is the chairman and managing director of AsiaLink Capital Limited and the president of The Hong Kong Independent Non-Executive Director Association. Mr. Fan has extensive experience in reviewing and analyzing financial statements of listed corporations and private sectors. Prior to that, he held senior positions with various international financial institutions and was the managing director of a company listed on the Stock Exchange. Mr. Fan is an independent non-executive director of CITIC Resources Holdings Limited (Stock Code: 1205), Raymond Industrial Limited (Stock Code: 229), Uni-President China Holdings Limited (Stock Code: 220), China Development Bank International Investment Limited (Stock Code: 1062), Neo-Neon Holdings Ltd (Stock Code: 1868), Shanghai Industrial Urban Development Group Limited (Stock Code: 563), Technovator International Limited (Stock Code: 1206), Tenfu (Cayman) Holdings Company Limited (Stock Code: 6868), Hong Kong Resources Holdings Company Limited (Stock Code: 2882) and Semiconductor Manufacturing International Corporation (Stock Code: 981), all of them are listed on the Main Board of the Stock Exchange. Apart from these, Mr. Fan was an independent non-executive director of LT Commercial Real Estate Limited (Stock Code: 112), Guodian Technology & Environment Group Corporation Limited (Stock Code: 1296) and CGN New Energy Holdings Co., Ltd. (Stock Code: 1811) in the past three years, all of them are listed on the Main Board of the Stock Exchange.

Mr. WANG Yifu (王一夫), aged 68, was appointed as an independent Non-Executive Director of the Company since August 2008. He is also a member of each of the audit committee, remuneration committee and nomination committee of the Board of the Company. Mr. Wang has over 35 years of experience in the banking and finance industry. He worked at several branches of the China People's Construction Bank (中國人民建設銀行) in Harbin from 1975 to 1993, during which he had worked at the accounting and investment divisions of various branches. He was appointed as the director (行長) of the marketing division and the senior economist of Harbin main branch of the China People's Construction Bank in 1991 and 1993, respectively. In 1996, Mr. Wang was appointed as the supervisor (監事長) of the internal auditing department of Harbin Commercial Bank (哈爾濱商業銀行) and was promoted to vice-governor (副行長) of the same department in 1999. Since 2004, Mr. Wang has been the inspector (調研員) of Harbin Commercial Bank. Mr. Wang graduated from Northeast Heavy Machinery College (東北重型機械學院) with a college degree in mechanical engineering in 1975.

* *For identification purpose only*

Mr. LEUNG Chung Ki (梁松基), aged 62, was appointed as the independent Non-Executive Director of the Company since 2012. He graduated with bachelor degree in business administration in the Chinese University of Hong Kong and a master degree in business administration in the De Paul University in United States. Mr. Leung is an independent non-executive director of PYI Corporation Limited, a company listed on the main board of the Stock Exchange with stock code: 498. He has over 20 years of banking experience and holds directorships in various companies engaging in investment since 2000.

Mr. TANG Hon Man (鄧漢文), aged 60, was appointed as the independent Non-Executive Director of the Company since 2012. He is the chairman of the remuneration committee and the nomination committee of the Board of the Company. Mr. Tang graduated with a bachelor degree in business administration in the Chinese University of Hong Kong. Mr. Tang has over 30 years of working experience and has been appointed as the director of supply chain management division of an international electronic product distribution group since 2006 and a director of supply chain management division of a global 3D printing technology company listed in the United States of America since April 2013.

Senior Management

Mr. MA Baoli (馬寶禮), aged 67, is our vice president and responsible for mergers and acquisitions of the Group, including identifying target companies which are related to business of the Group, and setting up and implementing strategies for mergers and acquisitions. Mr. Ma joined the Group in July 2015 and has more than 16 years experience in the management of agricultural business. Prior to joining the Group, he served as a director of Shouguang Dili Agri-products Group Company Limited* (壽光地利農產品集團有限公司) and general manager of Harbin Hada Agricultural and Sideline Products Joint Stock Company Limited* (哈爾濱哈達農副產品股份有限公司) ("Harbin Hada"). He was responsible for business operations and market planning, and engaged in the management and market planning of agriculture wholesale business, respectively. Apart from these, he was appointed to senior positions of various corporations and responsible for management of manufacturing, sales and market planning. He completed a program of corporate management with Heilongjiang College of Commerce* (黑龍江商學院).

Ms. CHE Xiaoxin (車曉昕), aged 55, is our vice president and is fully responsible for the Company's finance operation. Ms. Che joined the Group in December 2018 and has over 30 years experience in accounting, finance and taxation management. Prior to joining the Group, Ms. Che successively served as general manager of investment banking of Zhuhai Securities Co., Ltd.* (珠海證券有限公司), and general manager of the headquarter of investment banking and managing director of finance department of China Merchants Securities. She also taught in Zhengzhou University of Aeronautics. Ms. Che graduated from Zhongnan University of Economics and Law, with a master degree of Economics, major in accounting. She is a certified public accountant and senior accountant in China.

Mr. GENG Xiaoguo (耿孝國), aged 54, is general manager of our marketing management department, primarily responsible for the upgrade of the trading and services provided by our agriculture wholesale and logistic parks towards the new business model of an integrated fresh food distribution service system. Mr. Geng joined our Group in 2001 and has over 18 years experience in project construction and commercial operations. Mr. Geng has been appointed as a director of Guangzhou Renhe New World Public Facilities Co., Ltd.* (廣州人和新天地公共設施有限公司) since 2006. He was then appointed as acting general manager of Shenyang Shouguang Dili Agricultural Produce and Side Products Co., Ltd.* (瀋陽壽光地利農副產品有限公司) in 2018, and was in charge of business operation, market planning and wholesaling management. Mr. Geng graduated from Heilongjiang University (黑龍江大學) with a bachelor's degree in law.

* *For identification purpose only*

Directors and Senior Management Profile

Mr. LIU Bing (劉冰), aged 40, is general manager of our supply chain department, primarily responsible for the construction of modern supply chain service system in respect of the coverage of full-function fresh food distribution. Mr. Liu joined the Group in July 2015 and has more than 18 years experience in business administration and agricultural produce and side products. Prior to joining the Group, He was appointed senior position of various group companies of Harbin Hada. He was also a leader of the 5th squad of Heilongjiang Armed Police Force. He graduated from Heilongjiang University with a major in business administration and subsequently completed a master degree of economics at The Party School of HLJ P.P.C. of The C.P.C..

Mr. HUNG Fan Kwan (孔繁崑), FCPA, FCCA, aged 54, is our vice president and chief financial officer as well as company secretary, is primarily responsible for overseeing the Group's financial reporting and compliance with the requirements under the Hong Kong Listing Rules with regard to financial reporting and other accounting-related issues. Mr. Hung joined the Group in March 2008 and has over 30 years experience in accounting, finance and treasury functions. Prior to joining the Group, Mr. Hung was appointed to a number of senior accounting and financial positions with various listed and private companies in Hong Kong and was previously a vice audit manager at Coopers & Lybrand (currently known as PricewaterhouseCoopers). He graduated with a Professional Diploma in Accountancy from the Hong Kong Polytechnic University and is a fellow member of the Chartered Association of Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate of the Institute of Chartered Accountants in England and Wales.

Ms. CHAN Rebecca (陳慧瑩), aged 43, is a vice president of the Company, responsible for the Company's capital markets operations. Ms. Chan joined the Group in July 2014. Ms. Chan has over 16 years of experience in corporate finance and capital markets transaction. Before joining the Group, Ms. Chan was trained as a solicitor in Hong Kong and subsequently switched to investment banking in 2005 and had been working for various investment banks since then, including UBS AG and J. P. Morgan Asia. Her last position before joining the Group was an Executive Director with J. P. Morgan Asia's Equity Capital Markets department. Ms. Chan holds a laws degree (LL. B) from University of Sheffield, United Kingdom. Ms. Chan is also a qualified solicitor of the HKSAR.

* *For identification purpose only*

Report of the Directors

The directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2018.

Principal Activities

The Company acts as an investment holding company. The principal activities of its major subsidiaries as at 31 December 2018 are set out in note 16 to the financial statements.

Business Review

The business review, the analysis using financial key performance indicator on the Group and the indication of likely future development on the Company's business are set out on pages 5 to 13 of this annual report.

The Group has set up systems and procedures to ensure compliance with relevant laws and regulations which have a significant impact on the Group and in the conduct of its businesses, including internal control procedures, establishment of code of conduct and internal policies for prevention of bribery, risk management and whistleblowing, staff training, regular review of sufficiency and effectiveness of its systems and procedures, timely communication to relevant departments and staff upon enactment of, or changes in, relevant laws and regulations, and regular reminders of compliance.

Environmental Policies and Performance

The Group is committed to environmental sustainability. Its sustainability policy underscores environmental protection in business activities, management and operation practices, intending to minimize their impact on the environment and integrate sustainable practices in its supply chain as far as practicable.

The Group continues its environmentally-conscious practices including operating a greener workplace, reducing its carbon footprint, optimizing its energy use, reducing its waste generation, conserving resources and maintaining indoor environmental quality.

Relationships with Stakeholders

The Group recognizes the critical roles its employees, customers, suppliers, business partners and community play in its sustainability practices.

The Group's employees are one of its most important assets and it is committed to providing them with a fair and safe, healthy and happy work environment that is conducive to personal growth and career development. The Group has in place work-life balance and continuing education programs.

The Group's customers hold the key to success of its sustainable journey. The Group strives for excellence in service across its business activities and implement reasonable measures to guard the safety of its customers under relevant laws and regulations.

Stakeholders in the Group's supply chain — suppliers and vendors — are crucial collaborators. The Group is committed to sharing its core values in pursuit of business integrity, service excellence and long-term mutually beneficial relationships.

Further information of the Group's sustainability and environmental policies and performance as well as relationships with stakeholders can be found in the Environmental, Social and Governance Report in this annual report.

Potential Risk Factors

The Group's financial performance, operations and prospects for growth may be affected by risks and uncertainties, both direct and indirect. Key risk factors are set out below but they are by no means exhaustive or comprehensive and there may be other additional risks which are not yet known to the Group or which may not be significant now but may turn out to be significant in the future:

Competition

The agricultural industry, and particularly the wholesaling sector, is highly competitive in China. We face competition from national and regional operators of wholesale markets, and forms of internet business in the areas in which we currently operate. All of these markets owned by third parties compete with our markets. As such, we cannot ensure to retain our customers, given the intense competition in the agricultural wholesaling industry in China, which may result in a loss of market share as well as a decrease in profitability. Consequently, there may be material adverse effects on our financial performance.

Government Policies, Regulations and Approvals

The major businesses of our Company are subject to extensive legal compliance, grant of licenses or concessions and their respective requirements, necessary government approvals, as well as safety, hygiene and environmental regulations. Any breaches, incidents, or failure to receive licences, concessions or approvals from relevant governments may cause suspensions of operations. Besides, operations of agricultural wholesaling markets are subject to a wide variety of laws and regulations and policies including those of healthcare, hygiene, taxation, environmental, safety, fire, food preparation, building and security etc. Further increases in wages level in China could also cause higher costs of operations.

Exposure to Exchange Rates

Presently, most of the Group's business transactions, assets and liabilities are denominated in RMB and settled in RMB. The Group's exposure to currency risk is minimal as the Group's assets and liabilities as at 31 December 2018 were denominated in the respective Group companies' functional currencies. The Group does not have any currency hedging policy and has not entered into any hedging or other instrument to reduce currency risks. However, the management will closely monitor the Group's exposure to the fluctuation of exchange rates and take appropriate measures as necessary to minimise any adverse impact that may be caused by such fluctuation.

Major Customers and Suppliers

The information in respect of the Groupˇs sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total Sales	Purchases
The largest customer	2%	
Five largest customers in aggregate	4%	
The largest supplier		30%
Five largest suppliers in aggregate		53%

None of the directors, their respective associates or, so far as the directors are aware, any shareholder who owns more than 5% of the issued share capital of the Company has any interest in any of the said top five customers and suppliers of the Group for the year.

Financial Statements

The loss of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 54 to 131.

Transfer to Reserves

Loss attributable to equity shareholders of the Company, before dividends, of RMB360,901,000 (2017: loss of RMB127,050,000) have been transferred to reserves. Other movements in reserves are set out in the Group's consolidated statement of changes in equity for the year ended 31 December 2018.

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of Cayman Companies Law, amounted to approximately RMB12,342,554,000 (as at 31 December 2017: RMB10,505,117,000).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB Nil (2017: Nil).

Property and Equipment

Details of the changes in property and equipment of the Group are set out in note 12 to the financial statements.

Report of the Directors

Share Capital

Details of the changes in the Group's share capital during the year are set out in note 25(c) to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors

The directors during the financial year were:

Chairman

Wang Yan (was appointed on 4 September 2018)
Dai Yongge (resigned on 4 September 2018)

Executive directors

Wang Yan (was appointed on 4 September 2018)
Dai Bin
Dai Yongge (resigned on 30 September 2018)
Wang Hongfang (resigned on 4 September 2018)

Non-executive directors

Yin Jianhong (was appointed on 31 December 2018)
Yang Yuhua (was appointed on 31 December 2018)
Hawken Xiu Li (resigned on 31 December 2018)
Jiang Mei (resigned on 31 December 2018)
Zhang Xingmei (resigned on 31 December 2018)
Zhang Dabin (resigned on 31 December 2018)
Wang Chunrong (resigned on 31 December 2018)

Independent non-executive directors

Fan Ren-Da, Anthony
Wang Yifu
Leung Chung Ki
Tang Hon Man
Wang Shengli (resigned on 31 December 2018)

Biographical Details of the Directors

The biographical details of the current directors are set out on pages 14 to 17 of this annual report.

Directors' Service Contracts, Rotation and Confirmations of Independence

The executive directors are engaged on a service contract for a term of three years. Each service contract will continue thereafter until terminated by not less than one month's notice in writing served by either party. Most of the non-executive and independent non-executive directors have been appointed to hold the office for a term of one year and thereafter continue for further successive periods of one year with maximum period of three years for further re-election at Annual General Meeting ("AGM"). In addition, the appointment of each of directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considers all the independent non-executive directors to be independent.

In accordance with the provisions of the Company's Articles of Association, Mr. Wang Yan, Mr. Yin Jianhong, Ms. Yang Yuhua, Mr. Fan Ren-Da, Anthony, Mr. Leung Chung Ki and Mr. Tang Hon Man will retire from the Board at the forthcoming AGM but, being eligible, will offer themselves for re-election.

Other than disclosed above, none of the directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

Directors' Emoluments

Details of directors' emoluments on a named basis are set out in note 8 to financial statements. The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' responsibilities, abilities and performance, the Company's operations, as well as remuneration benchmark in the prevailing market conditions.

No Director has waived or has agreed to waive any emoluments during the year ended 31 December 2018.

The emolument policy of the Company is set out in the Corporate Governance Report on pages 31 to 41 of this annual report.

Management Contracts

No contracts for the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year ended 31 December 2018.

Permitted Indemnity Provision

Pursuant to the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favor, or in which he/she is acquitted.

Equity-Linked Agreements

Other than the Share Award Scheme as disclosed in this annual report, no equity-linked agreements were entered into by the Company during the year ended 31 December 2018 or subsisted at the end of the year.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company as required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules were as follows:

Long/short positions in shares/underlying shares of the Company:

Name of director	Capacity	Nature of interest	Number of issued shares/ underlying shares	Approximate percentage of interest in the Company
Mr. Yin Jianhong	Beneficial owner	Long position	48,350,000	0.08%

Save as disclosed above, none of the directors or chief executives of the Company or their associates had, as at 31 December 2018, any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2018, the interests or short positions of the substantial shareholders (other than the directors or chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of issued shares/ Nature of interest *(Note 1)*	Approximate percentage of interest in the Company
Mr. Dai Yongge	Beneficial owner	200,070,000 (L)	0.35%
	Interest in controlled corporations *(Note 2)*	21,110,215,333 (L)	36.93%
	Interest of spouse *(Note 3)*	48,031,332,170 (L)	84.04%
	Interest in a controlled corporation	66,556,293 (S)	0.12%
Super Brilliant Investments Limited	Beneficial owner	20,118,104,668 (L)	35.20%
	Beneficial owner	66,556,293 (S)	0.12%
Shining Hill Investments Limited	Interest in a controlled corporation *(Note 2)*	20,118,104,668 (L)	35.20%
	Interest in a controlled corporation	66,556,293 (S)	0.12%
Ms. Zhang Xingmei	Interest in a controlled corporation *(Note 4)*	48,031,332,170 (L)	84.04%
	Interest of spouse *(Note 5)*	21,310,285,333 (L)	37.28%
	Interest of spouse	66,556,293 (S)	0.12%
New Amuse Limited	Beneficial owner	48,031,332,170 (L)	84.04%
Shouguang Dili Agri-Products Group Company Limited	Interest in a controlled corporation	48,031,332,170 (L)	84.04%
Dili Group Holdings Company Limited	Interest in a controlled corporation	48,031,332,170 (L)	84.04%
Win Spread Limited	Interest in a controlled corporation	48,031,332,170 (L)	84.04%

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Notes:

(1) The letter "L" denotes the person's long position in such shares and the letter "S" denotes the person's short position in such shares.

(2) Among 21,110,215,333 shares of the Company deemed to be interested by Mr. Dai Yongge, 159,120,000 shares are held by Gloss Season Limited, which is held as to 100% by Mr. Dai Yongge; 20,118,104,668 shares are held by Super Brilliant Investments Limited ("Super Brilliant") and Super Brilliant is wholly owned by Shining Hill Investments Limited ("Shining Hill"). Mr. Dai Yongge is interested in the entire issued share capital of Shining Hill which is in turn interested in the entire issued share capital of Super Brilliant and therefore, Mr. Dai Yongge and Shining Hill are deemed to be interested in the shares held by Super Brilliant; 832,990,665 shares are held by Wealthy Aim Holdings Limited ("Wealthy Aim"). As the entire issued share capital of Wealthy Aim is held by Broad Long Limited ("Broad Long"), which is held as to 100% by Mr. Dai Yongge, he is deemed to be interested in the shares held by Wealthy Aim.

(3) Mr. Dai Yongge is deemed to be interested in the shares held by his spouse, Ms. Zhang Xingmei.

(4) Ms. Zhang Xingmei holds the entire issued share capital of Win Spread Limited ("Win Spread"). Win Spread holds the entire issued share capital of Dili Group Holdings Company Limited ("Dili Group"). Dili Group holds the entire issued share capital of Shouguang Dili Agri-Products Group Company Limited ("Shouguang Dili"). Shouguang Dili holds the entire issued share capital of New Amuse Limited ("New Amuse"). New Amuse beneficially holds 48,031,332,170 shares in our Company, of which 39,914,259,000 shares are interests in conversion shares relating to the convertible bonds yet to be issued pursuant to the sale and purchase agreement dated 5 June 2018 between among others, the Company and New Amuse. Accordingly, each of Ms. Zhang Xingmei, Win Spread, Dili Group and Shougang Dili is deemed to be interested in the 48,031,332,170 shares held by New Amuse.

(5) Ms. Zhang Xingmei is deemed to be interested in the shares held by her spouse, Mr. Dai Yongge.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2018, there was no other person, other than the directors or chief executives 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 pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

Share Award Scheme

A share award scheme was adopted by the Board on 28 August 2018 (the "Share Award Scheme") to (i) recognize the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) attract suitable personnel for further development of the Group. An independent third party has been appointed as a trustee (the "Trustee") under the Share Award Scheme.

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules.

The Share Award Scheme shall be valid and effective for a term of 10 years commencing on the date of its adoption. Pursuant to the Share Award Scheme, the Trustee will purchase existing shares of the Company from the market or subscribe for new shares from the Company out of cash contributed by the Group and such shares will be held on trust for selected employees until such awarded shares are vested with the relevant selected employees. Vested shares will be transferred to the selected employees at no cost. At no point in time shall the Trustee be holding more than 5% of the total number of shares of the Company in issue under the Share Award Scheme. Details of the rules of the Share Award Scheme were set out in the announcement of the Company dated 28 August 2018.

Up to 31 December 2018, the Trustee had purchased a total of 633,844,000 existing shares of the Company from the market with a total cost of approximately RMB138.8 million. During the year, no shares were issued under the Share Award Scheme and no shares were granted to any selected employees under the Share Award Scheme.

Directors' Interest in Transactions, Arrangements and Contracts

No transactions, arrangements and contracts of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Continuing Connected Transactions

Details of the continuing connected transactions during the year ended 31 December 2018 are as follows:

The Framework Lease Agreement

For the on-going operation of the markets of the Group in the PRC, New Amuse Limited (the "Vendor"), as lessor, entered into the Framework Lease Agreement with Yield Smart Limited (the "Target Company"), as lessee, on 9 June 2015, pursuant to which the Target Company will upon completion of the acquisition of the entire issued share capital of the Target Company, procure the PRC operating companies to enter into the leasing agreements with the PRC Vendors in respect of the leasing of the relevant properties (including land and buildings) which are all held by the PRC vendors, necessary for the on-going operation of the markets of the Group in the relevant locality.

Particulars of the Framework Lease Agreement are set out below:

Transaction Date:	9 June 2015
Parties:	Vendor as lessor Target Company as lessee
Premises:	Certain land and properties in each of the six cities in the PRC namely Harbin, Qiqihar, Shenyang, Guiyang, Mudanjiang and Shouguang
Permitted Usage:	For operation of Markets for wholesaling and retailing of agricultural produce
Term:	Fixed term of 20 years commencing from the Completion Date and shall terminate on 31 December 2035, subject to the option to renew as described below During the Term, the Vendor (as lessor) and the Target Company (as lessee) will procure the New PRC Operating Companies to enter into the Leasing Agreements with the PRC Vendors in respect of the leasing of the premises stipulated above.
Annual Rent:	RMB100 million per year commencing from the Completion Date to 31 December 2018, exclusive of operating charges, property tax and other outgoings For the annual rent of the rest of the term, please refer to the announcement and circular of the Company dated 9 June 2015 and 29 June 2015, respectively.
Option to Renew:	At the discretion of the Target Company or the relevant entity of the Target Group (being part of the Enlarged Group post Completion), the agreement can be renewed with RMB134.01 million as the base rent with 5% increments for every three years for the renewed term.

Continuing Connected Transactions *(Continued)*

As the Vendor is a wholly-owned subsidiary of Shouguang Dili Agri-Products Group Company Limited, which is ultimately held as to 69.74% (currently 100%) by Ms. Zhang Xingmei, a former non-executive Director and the spouse of Mr. Dai Yongge, a former executive Director, both of them are currently controlling shareholders of the Company. Accordingly, the Vendor is a connected person of the Company under the Listing Rules and the acquisition also constitutes a connected transaction of the Company under Rule 14A.25 of the Listing Rules.

Under Chapter 14A of the Listing Rules, the transactions mentioned above constituted continuing connected transactions of the Company and require disclosures in the Company's annual report. The price and terms of such transactions have been determined in accordance with pricing policies and guidelines set out in relevant announcements.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive Directors who have confirmed that the transactions were entered into:

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

(b) on normal commercial terms or better; and

(c) in accordance with relevant agreements on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The auditors of the Company have performed certain pre-determined procedures and reported their findings regarding the continuing connected transactions entered into by the Group set out above for the year ended 31 December 2018 and state that:

(1) nothing has come to their attention that causes them to believe that the above continuing connected transactions have not been approved by the Board;

(2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the above continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) nothing has come to their attention that causes them to believe that the above continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(4) with respect to the aggregate amount of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the above continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the circular dated 28 June 2015 made by the Company in respect of the above continuing connected transactions.

Save as disclosed in the annual report, the Board confirmed that none of the related party transactions set out in note 30(b) to the financial statements constituted non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. During the year ended 31 December 2018, save as disclosed above, the Group had not entered into any connected transactions or continuing connected transactions which are required to be disclosed in this annual report pursuant to the Listing Rules.

The Group confirms that it will comply or continue to comply with the relevant provisions of Chapter 14A of the Listing Rules in relation to the continuing connected transactions of the Company.

Report of the Directors

Five Years Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 132 of this annual report.

Retirement Schemes

The Group is required to make contributions to the Schemes at the rate ranges from 18% to 20% of the eligible employee's salaries. Particulars of these retirement schemes are set out in note 26 to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

Audit Committee

The Company has established an audit committee in accordance with the requirements of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the "Code"). The primary duty of the audit committee is to review and supervise the financial reporting process, risk management and internal control systems of the Group. The audit committee is comprised of two independent non-executive directors and one non-executive director. The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2018.

Corporate Governance

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year covered by this annual report, in compliance with the Code on Corporate Governance Practices saved as disclosed in the corporate governance report contained in this annual report.

Auditors

The consolidated financial statements of the Group have been audited by KPMG, who shall 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
Wang Yan
Chairman

Hong Kong, 28 March 2019

Corporate Governance Report

Introduction

The Company recognizes the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve our image with effective corporate governance procedures.

The Company has complied with the code provisions in the Code throughout the year ended 31 December 2018, save and except for the following:

Code Provision A.2.7

The Chairman of the Company did not hold any formal meeting with the independent non-executive directors and other non-executive directors due to the busy schedule of the Chairman and the non-executive directors. The Chairman may communicate with the independent non-executive directors and other non-executive directors on a one-to-one or group basic to understand their concerns and to discuss pertinent issues.

Code Provision E.1.2

Under this code provision, the chairman of the board should attend the annual general meeting ("AGM"). Mr. Dai Yongge, the then Chairman of the Board was unable to attend the AGM of the Company held on 27 June 2018 due to other business commitments. In absence of the Chairman, Mr. Wang Hongfang, a then executive director of the Company, acted as the Chairman of the AGM. The Board will finalise and inform the date of the AGM as earliest as possible to make sure that the directors would attend the AGM of the Company in the future.

Save as disclosed above, there has been no deviation from the code provisions of the Code by the Company for the year ended 31 December 2018.

Compliance With The Model Code For Securities Transactions By Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the guidelines for the directors' dealings in the securities of the Company. Upon specific enquiries of all the directors, each of them confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2018 in relation to their securities dealings, if any.

Directors' Training

All directors have been given relevant guideline materials regarding the duties and responsibilities of being as a director, the relevant laws and regulations applicable to the directors, duty of disclosure of interests and business of the Group. Such induction materials will also be provided to newly appointed directors shortly upon their appointment as directors.

During the year, the Company continuously updated the 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. All directors were encouraged to participate in continuous professional development by attending seminars/in-house briefing/reading materials on different topics to develop and refresh their knowledge and skills.

The Board

The Board is responsible for the leadership and control of the Company and overseeing the Group's business, strategic decisions and performances. The management is delegated with the authority and responsibility by the Board for the management of the Group. In addition, the Board has also established various Board committees on 25 August 2008 and has delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). All the Board Committees perform their distinct roles in accordance with their respective terms of reference. Further details of the Board Committees are set out hereunder.

Most of the non-executive directors and independent non-executive directors are appointed for a term of one year, which are subject to retirement in accordance with the articles of association of the Company (the "Articles"). According to the Articles, at each AGM, one-third of the directors for the time being (or, if their number is not a multiple of three, 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 an AGM at least once every three years. Newly appointed directors shall hold office until the next general meeting but be subject to re-election.

The Company has received from each of the independent non-executive directors a confirmation of his independence in accordance with Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Composition

The Board currently consists of 8 Directors as follows:

Executive Directors

Wang Yan (Chairman)
Dai Bin (Chief Executive Officer)

Non-executive Directors

Yin Jianhong
Yang Yuhua

Independent Non-executive Directors

Fan Ren-Da, Anthony
Wang Yifu
Leung Chung Ki
Tang Hon Man

All Directors have appropriate professional qualification or substantive experience and industry knowledge. The Board as a whole has achieved an appropriate balance of skills and experience. The Directors' biographies are set out under the section headed "Directors and Senior Management Profile" of this Annual Report and there is no relationship among members of the Board.

Chairman and Chief Executive Officer ("CEO")

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO is clearly established and set out in writing. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the CEO is responsible for the management of the business of the Group.

Mr. Wang Yan is the Chairman of the Company and is responsible for formulating the overall development strategies and business plan of our Group and is instrumental to the Company's growth and business expansion since its establishment. Mr. Dai Bin is the Chief Executive Officer of the Company and is responsible for overseeing the management and strategic development of our Group.

During the year ended 31 December 2018, the Board held seven meetings and attendance of each director at the meetings and AGM is set out below:

Name of Director	No. of Board meetings held during the Director's term of office in the relevant period	No. of Board meetings attended	Attendance rate of Board meetings	No. of GMs attended/ No. of AGM & EGM held
Executive Directors				
Wang Yan *(Note 1)*	7	2	100%	N/A
Dai Bin	7	5	71%	0/2
Dai Yongge *(Note 2)*	7	6	100%	0/2
Wang Hongfang *(Note 3)*	7	4	80%	2/2
Non-executive Directors				
Yin Jianhong *(Note 4)*	7	N/A	N/A	N/A
Yang Yuhua *(Note 4)*	7	N/A	N/A	N/A
Hawken Xiu Li *(Note 5)*	7	0	0%	0/2
Jiang Mei *(Note 5)*	7	0	0%	0/2
Zhang Xingmei *(Note 5)*	7	0	0%	0/2
Zhang Dabin *(Note 5)*	7	0	0%	0/2
Wang Chunrong *(Note 5)*	7	1	14%	0/2
Independent Non-executive Directors				
Fan Ren-Da, Anthony	7	5	71%	2/2
Wang Yifu	7	6	86%	0/2
Leung Chung Ki	7	7	100%	0/2
Tang Hon Man	7	5	71%	0/2
Wang Shengli *(Note 5)*	7	5	71%	0/2

Notes:

1. Was appointed on 4 September 2018.

2. Resigned on 30 September 2018.

3. Resigned on 4 September 2018.

4. Was appointed on 31 December 2018.

5. Resigned on 31 December 2018.

Nomination Committee

The Company established a Nomination Committee on 25 August 2008 with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size and diversity of the Board, assessing the independence of independent non-executive directors and providing recommendations to the Board on matters relating to the appointment of directors. The Nomination Committee of the Company consists of Mr. Wang Yan, an executive director, Mr. Tang Hon Man and Mr. Wang Yifu, of whom Mr. Tang Hon Man and Mr. Wang Yifu are independent non-executive directors and is chaired by Mr. Tang Hon Man.

Below is the summary of the Board Diversity Policy:

The Company believes that having a diverse Board can enhance the quality of its performance. In this regard, the Company has developed a diversity policy for the Board, in terms of skills, experience, knowledge, expertise, culture, ethnicity, length of service, independence, age and gender. In addition, the Nomination Committee will hold discussions towards achieving the goal of Board diversification and provide recommendations to the Board for adoption.

During the year ended 31 December 2018, the Nomination Committee held two meetings and the attendance is listed below:

Name of Nomination Committee Member	No. of meetings held during the year	No. of meetings attended	Attendance rate
Tang Hon Man (Chairman) *(Note 1)*	2	N/A	N/A
Wang Yan *(Note 2)*	2	1	100%
Wang Yifu	2	1	50%
Wang Shengli *(Note 3)*	2	2	100%
Dai Yongge *(Note 4)*	2	1	100%

Notes:

1. Was appointed on 31 December 2018.
2. Was appointed on 4 September 2018.
3. Resigned on 31 December 2018.
4. Resigned on 4 September 2018.

Remuneration Committee

The Company established a Remuneration Committee on 25 August 2008 with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee include providing recommendations to the Board on the Company's structure and policy for remuneration of directors and senior management, determining the remuneration packages of individual executive directors and senior management, reviewing the terms of remuneration packages, determining the award of bonuses and considering the grant of options under the Share Option Scheme. The Remuneration Committee of the Company consists of Mr. Wang Yan, an executive director, Mr. Tang Hon Man and Mr. Wang Yifu, of whom Mr. Tang Hon Man and Mr. Wang Yifu are independent non-executive directors and is chaired by Mr. Tang Hon Man.

During the year ended 31 December 2018, the Remuneration Committee held two meetings and the attendance is listed below:

Name of Remuneration Committee Member	No. of meetings held during the year	No. of meetings attended	Attendance rate
Tang Hon Man (Chairman) *(Note 1)*	2	N/A	N/A
Wang Yan *(Note 2)*	2	1	100%
Wang Yifu	2	1	50%
Wang Shengli *(Note 3)*	2	2	100%
Dai Yongge *(Note 4)*	2	1	100%

Notes:

1. Was appointed on 31 December 2018.
2. Was appointed on 4 September 2018.
3. Resigned on 31 December 2018.
4. Resigned on 4 September 2018.

Emolument Policy

The emolument policy of the employees of the Group is set up by the executive directors of the Company on the basis of their merit, qualifications and competence.

The emolument of the directors of the Company is determined by the board of directors of the Company after recommendation from the Remuneration Committee, having regard to the responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

Details of directors emolument during the year ended 31 December 2018 are set out in note 8 to the consolidated financial statements.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors and their corporate governance duties include:

(a) to develop, review and implement the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance shareholders' relationship with the Company.

During the year ended 31 December 2018, the above corporate governance function has been performed and executed by the Board and the Board has reviewed the Company's compliance with the Code.

Audit Committee

The Company established an Audit Committee pursuant to a resolution of the directors passed on 25 August 2008 with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The primary duty of the Audit Committee is to review and supervise the financial reporting process, risk management and internal control systems of the Group. The Audit Committee of the Company consists of Ms. Yang Yuhua, a non-executive director, Mr. Fan Ren-Da, Anthony and Mr. Wang Yifu, of whom Mr. Fan Ren-Da, Anthony and Mr. Wang Yifu are independent non-executive directors and is chaired by Mr. Fan Ren-Da, Anthony. In compliance with Rule 3.21 of the Listing Rules, the chairman of the Audit Committee has possessed the appropriate professional and accounting qualifications.

During the year ended 31 December 2018, there were two meetings held by the Audit Committee which the members of the audit committee discussed with KPMG about the arrangements of the Company's annual audit work and reviewed the annual results and interim results of the Group, as well as the relevant financial statements and reports and significant financial reporting judgments contained therein, as well as the internal control system and the Group's financial and accounting policies and practices. The attendance of the members at the Audit Committee meetings is presented hereinafter:

Name of Audit Committee Member	No. of meetings held during the year	No. of meetings attended	Attendance rate
Fan Ren-Da, Anthony (Chairman)	2	2	100%
Wang Yifu	2	2	100%
Yang Yuhua *(Note 1)*	2	N/A	N/A
Wang Shengli *(Note 2)*	2	2	100%

Notes:

1. Was appointed on 31 December 2018.
2. Resigned on 31 December 2018.

Auditors' Remuneration

During the year ended 31 December 2018, the remunerations paid or payable to KPMG in respect of its audit services and non-audit services are RMB5,350,000 and RMB9,188,000 respectively. The non-audit services mainly included the independent review of the interim results of the Group for the six months ended 30 June 2018 and special project.

Accountability and Audit

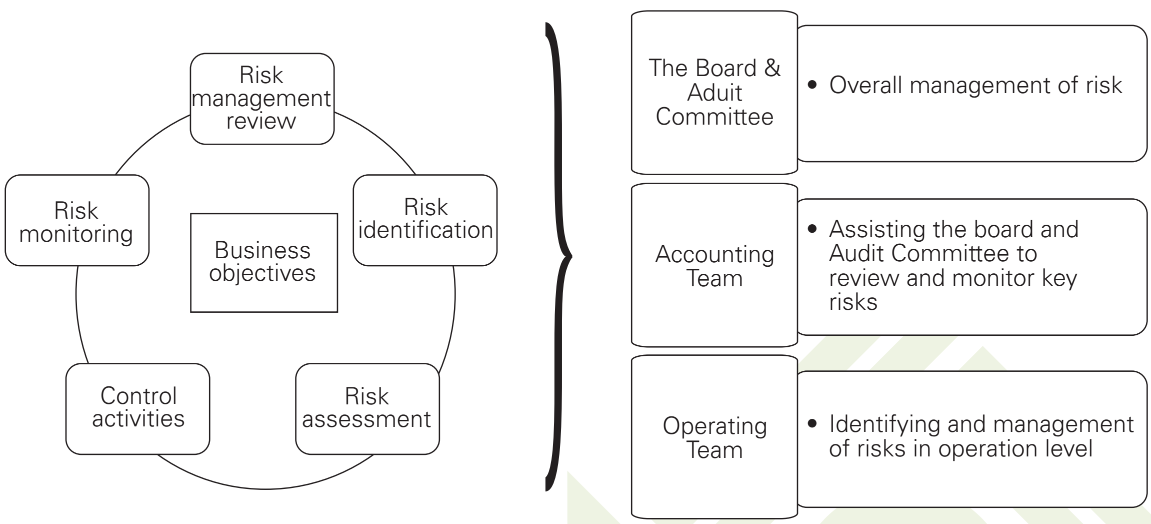
The directors acknowledge their responsibilities for preparing all information and representations contained in the financial statements of the Company for the year under review. The directors consider that the financial statements have been prepared in conformity with all appropriate accounting standards and requirements and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and the management with an appropriate enquiries, were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going concern basis.

Risk Management and Internal Control

The Group established and maintained appropriate and effective risk management and internal control systems during the year ended 31 December 2018. While the management of the Group is responsible for implementing and maintaining sound risk management and internal control system that safeguard the Group's assets and stakeholders' interest in aspects including operation, financial and compliance. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

Risk management process

The Group has established risk management manual to formulate the risk management process and the management is committed to fostering a risk aware and control conscious environment. The staff in all levels within the Group are also required to take the relevant responsibility on the risk management process. The structure and procedures for the risk management are as follows:



Risk Management and Internal Control *(Continued)*

Risk management process *(Continued)*

Risk identification: Both internal and external factors including economic, political, social, technology and environmental factors, laws and regulations, business objectives and stakeholders' expectation would be considered

Risk assessment: The risk identified would be assessed and rated based on the likelihood and impact to the achievement of the Group's objectives

Control activities: The internal control procedures have been designed and implemented to mitigate the risks

Risk monitoring: Risk register has been maintained and updated regularly to monitor risks on an ongoing basis

Risk management review: The Board and Audit Committee would perform review on any change of significant risks of the Group

Internal audit function

During the year ended 31 December 2018, a review of the effectiveness of the Group's risk management and internal control system which covers the aspects of the effectiveness of the Company's risk management and internal control system and management procedure, was conducted by our internal control department. Such review is conducted on an annual basis. The Board considered the risk management and internal control system of the Company to be effective and adequate.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Company Secretary

The Company Secretary is a full-time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for advising the Board on governance matters. For the year ended 31 December 2018, the Company Secretary has taken no less than 15 hours of relevant professional training.

Investor Relations, Communications with Shareholders and Shareholders' Rights

Objective

The management of the Company believes that effective and proper investor relations play a vital role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence. As such, the Company is committed to establish strategic communication channels to ensure the access of reliable corporate information by the shareholders, financial communities as well as the public.

Communications with Shareholders

The directors consider communication with the Shareholders are mainly in the following ways: (i) the holding of AGM and Extraordinary General Meeting ("EGM") which may be convened for specific purpose and can provide opportunities for the Shareholders to communicate directly to the Board; (ii) the publication of announcements, annual reports, interim reports and/or circulars as required under the Listing Rules and (iii) the upkeeping of the latest information of the Company's website at http://www.renhebusiness.com. Shareholders and investors are welcome to visit our website.

Investor Relations, Communications with Shareholders and Shareholders' Rights
(Continued)

Shareholders' Rights

(i) *Procedures by which Shareholders can Convene an EGM and Procedures for Putting Forward Proposals at the Meetings*

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

(ii) *Shareholders' Enquiries*

Shareholders should direct their questions about their shareholdings to the Company's Registrar. Shareholders may also make enquiries in writing to the principal place of business of the Company in Hong Kong.

Information Disclosure

Currently, the Company discloses information in compliance with the securities regulations of the Stock Exchange, and publishes periodic reports and announcements to the public in accordance with relevant laws and regulations. Our primary focus is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling shareholders, investors as well as the public, to make rational decisions that should result in the Company's securities trading at fair value over the long term.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries or requests as mentioned above to the following:

Mailing Address:	Suites 1701–1703, One IFC, 1 Harbour View Street, Central, Hong Kong
Email:	ir@renhe.com.hk

Changes in Constitutional Documents

During the year ended 31 December 2018, the Company amended its constitutional documents by increasing its authorised share capital. The latest version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

Environmental, Social and Governance Report

A. Environment

Environmental protection is one of the basic for sustainable development of enterprises. We attach great importance to the protection of the ecological environment. We commit ourselves to energy-saving and emission reduction in all aspects of operation and various business processes, so as to strive to achieve the sustainable corporate development on the environmental friendly basis.

All the operating facilities of the Company are designed and constructed in accordance with the national energy-saving building standards. Equipment used for our business operation are procured in accordance with national energy-saving requirements, and energy consumption of all equipment are in line with national energy-saving standards. For instance, electric vehicles are used inside the market.

1. Emissions

Our main business is the operation of agriculture products wholesale markets, as such, there is no industrial exhaust gas, waste water or solid waste emissions.

(1) Waste: Perished fruits and vegetables are the only main waste resulted from the operations of our agriculture wholesale markets, and they can be naturally degraded and are recyclable. All our markets entrust professional companies to carry out regular disposal of wastes in the markets to keep the market clean and tidy.

(2) Waste water: Waste water in the agricultural trading market is mainly from domestic water use and a small amount of operational water use. There is no bulk waste water emission or disposal.

(3) Exhaust gases: There is mainly no emissions of a large amount of greenhouse gases or other exhaust gases.

A. Environment *(Continued)*

2. Use of Resources

All the agricultural products wholesale markets were designed and planned in accordance with the energy-saving and water-saving requirements during the project approval and construction phases. During the daily operation, corresponding energy-saving and water management systems have been developed and implemented to improve resource efficiency and reduce resource consumption and environmental costs.

(1) Electricity: During the year ended 31 December 2018, the Group's electricity consumption is as follows:

	Quantity (kWh)
PRC	82,332,354
Hong Kong	40,998

Our major electricity consumptions are for the lighting in the wholesale markets and for the general office use. All our wholesale markets use LED energy-saving lighting to reduce electricity consumption. The storage facilities in the markets are also in line with the national energy-saving standards. The planning, design and construction of storage facilities including cool and temperature-controlled storage have reached the domestic advanced level with good energy-saving performance. We conduct power-saving campaigns among vendors on a regular basis to encourage vendors in the markets to save electricity.

(2) Water: During the year ended 31 December 2018, the Group's water consumption is as follows:

	Cubic metres
Running water consumption	1,765,232

The main operational use of water in the wholesale markets are for cleaning purposes with a small proportion of domestic water use. Most of the floor surface in the wholesale markets have been paved with concrete, plus the advanced dustproof steel structure ceiling, leading to efficient operational water saving. We also organized water-saving campaigns in various markets.

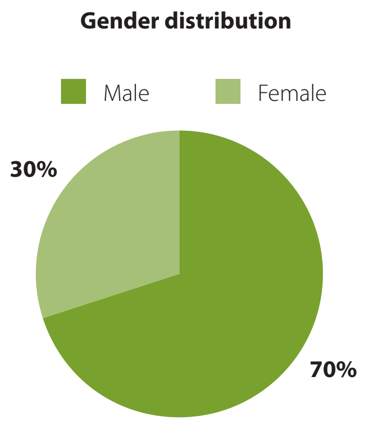
(3) Others: The Group fully promotes electronic settlement system in the markets step by step, largely reducing paper consumption. In the meantime, we also promote digitalized office operation and implemented environmental friendly measures including energy-saving and paper-recycling policies in our offices.

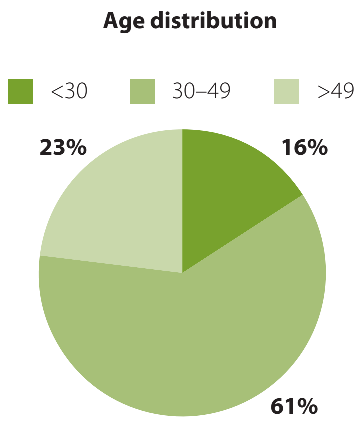
B. Society

1. Employment and Labor Practices

As of 31 December 2018, we have 2,668 employees, and all the employments are all in line with the employment and labor laws and regulations. 98% of the employees are located in mainland China, among which the proportions of male and female workers are 70% and 30% respectively; and the proportions of employees aged under 30, aged 30 to 49 and aged above 49 are 16%, 61% and 23% respectively.

We recognize the diversity of employees' background, and do not have any discrimination against any potential employee on gender, age, family, marriage status of disability during recruitment.





2. Employees' Health and Workplace Safety

We fix our office hours in strict accordance with the relevant employment laws and regulations in both Hong Kong and the PRC. We also provide medical examinations for employees every year while the Company will contribute to various social and medical insurances and provident fund for the staff according to national standards and provide holiday allowances and bonuses for the staff.

Our business involves no high-risk operations, and the work environment is free from dust, chemical or physical radiation or other pollutions.

B. Society *(Continued)*

3. Employee Development and Training

We recognize the value of providing personal and career development opportunities for employees, thereby increasing the attractiveness of jobs and enhancing job satisfaction. As a result, a wide range of trainings, including new employee induction training, managerial training, business training and professional training, are provided for management positions and general staff.

4. Guidelines for Employment of Labor

We, in full compliance with all labor regulations in all places of employment, strictly prohibit the employment of child labor and ensures that it contributes to social insurance and provident fund for the employees in accordance with the requirements of the relevant laws and regulations. We recruit staff according to the job requirements and strictly prohibits sexual discrimination.

5. Suppliers and Supply Chain Management

Procurement of most products and services used in our business operation are carried out through tender, strictly following competitive bidding process and implementing a set of supplier management and assessment measures to ensure the quality of products and services, as well as the professionalism during the fulfilment process.

As our business involves primary agricultural products, there is no risk of industrial pollution, and the Company conducted regular daily waste disposal for the markets. Therefore, there is no relevant environmental risks.

Products involved in our operation are related to the daily life of the surrounding residents and the social function is relatively prominent, thus are free from big social risk. We receive strong support from the local government for operation of each markets.

6. Product Responsibility

Our main business is the operation of agricultural products wholesale markets, and suppliers in the markets are mainly engaged in vegetables, fruits and other primary agricultural products wholesale. So the first responsible person for all primary agricultural products are individual business owners. The agricultural wholesale market has a great impact on the daily life of residents in the corresponding cities, and is an important part of the national "vegetable basket" project. Therefore, we set up agricultural products testing centers in all our wholesale markets to conduct sampling inspection for all kinds of primary agricultural products daily on site to eliminate defective products such as those with pesticide residues, and to ensure the safety of the "agricultural products".

B. Society *(Continued)*

7. Anti-Corruption

We strictly abide by all Hong Kong and China regulations on anti-corruption. We strictly prohibit any forms of bribery or corruption in the course of the its operation, and reminds the employees that they must avoid possible conflicts of interest and timely report to the company for related matters.

We conduct systematic induction trainings for new recruits and includes a non-competitive agreement and a confidentiality agreement in the labor contract to regulate employee behavior and avoid related risks.

8. Community Investment

We organize a number of cultural and sports activities, including: monthly birthday celebrations for related employees, regular football and basketball games for employees, and regular football matches watching activities. A great variety of activities greatly enhanced the cohesiveness between employees and the Group.

Independent Auditor's Report

Independent auditor's report to the shareholders of Renhe Commercial Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Renhe Commercial Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 131, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Assessment of impairment of goodwill

Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(f).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, goodwill, which arose from the acquisition of agriculture wholesale markets business in 2015 and the acquisition of three agriculture wholesale markets in Hangzhou (the "Hangzhou Business") during 2018, accounted for approximately 9.4% of the Group's total assets at that date. The agriculture wholesale markets business acquired in 2015 and the Hangzhou Business are identified as two separate cash-generating units ("CGUs"). Management compared the carrying amount of the CGUs with their respective recoverable amount, which were determined by assessing the value-in-use based on discounted cash flow forecasts. The preparation of discounted cash flow forecasts involved the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining appropriate discount rates. We identified assessment of impairment of goodwill as a key audit matter because management's assessment of the value of the future cash flows expected to be derived from agriculture wholesale markets business involved certain critical judgements in respect of the assumptions made which are inherently uncertain and could be subject to the management bias.	Our audit procedures to assess impairment of goodwill included the following: • Assessing the reliability of management's cash flow forecasting process by comparing the previous year's forecasts for the agriculture wholesale markets business acquired in 2015 and the Hangzhou Business with the current year's results, discussing significant variances with management and considering the effect of such variances on the current year's forecasts; • Evaluating management's valuation methodology with reference to the requirements of the prevailing accounting standards, assessing the discount rates applied by comparison with the discount rates for similar companies in the same industry and assessing other key assumptions adopted in the cash flow forecasts based on available market information and by comparison with other companies in the same industry; • Obtaining management's sensitivity analysis and challenging the discount rates and other key assumptions to which the outcome of the impairment assessments was most sensitive, including forecasted revenue and forecasted profit margins, and considering if there was any indication of management bias in the selection of these assumptions; and • Considering the disclosures in the consolidated financial statements in respect of the impairment assessments with reference to the requirements of the prevailing accounting standards.

Key audit matters *(Continued)*

Recoverability of trade and other receivables

Refer to Notes 19 and 29(a) to the consolidated financial statements and the accounting policies in Notes 2(l) and 2(o).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group has trade and other receivables amounted to RMB1,256 million, which accounted for approximately 10.8% of the Group's total assets at that date. Under International Accounting Standard 9 Financial Instruments, which the Group has adopted since 1 January 2018, these financial assets are carried at amortised cost and assessed for impairment under the expected credit loss ("ECL") model. Under the ECL model, credit losses arise when there is a difference between the contractual cash flows due to the Group and the cash flows that the Group expects to receive. Loss allowances are measured at an amount equal to lifetime ECLs for all trade receivables and for other receivables where there has been a significant increase in credit risk of the other receivable since initial recognition. For other receivables where there has not been a significant increase in credit risk, allowances are measured at an amount equal to 12-month ECL.	Our audit procedures to assess recoverability of trade and other receivables included the following: • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, segmentation of trade and other receivables, debt collection and estimating the credit loss allowance; • Evaluating the Group's policy for estimating the credit loss allowance with reference to the prevailing accounting standards; • Obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by the management, including the basis of the segmentation of the trade and other receivables based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate; • Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information;

Key audit matters *(Continued)*

Recoverability of trade and other receivables *(Continued)*

Refer to Notes 19 and 29(a) to the consolidated financial statements and the accounting policies in Notes 2(l) and 2(o). (Continued)

The Key Audit Matter	How the matter was addressed in our audit
In measuring ECLs, the Group takes into account information about past events, specific information of the debtors, current market conditions and forecasts of future economic conditions. Such assessment involves significant management judgement and estimation. We identified assessment of recoverability of receivables as a key audit matter because of the financial significance to the Group and the inherent uncertainty in management's exercise of judgement.	• Assessing whether items were correctly categorised in the trade and other receivables aging report by inspecting, on a sample basis, contracts with debtors and the cash receipts of the transactions; • Obtaining, on a sample basis, external confirmation from the debtors on the balances outstanding as at 31 December 2018; and • Inspecting, on a sample basis, the receipts from debtors subsequent to the reporting date relating to the balances as at 31 December 2018.

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 report, other than the consolidated financial statements and our auditor's report thereon.

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

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

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

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 requirements 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.

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.

Auditor's responsibilities for the audit of the consolidated financial statements

(Continued)

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

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

The engagement partner on the audit resulting in this independent auditor's report is *Ng Kwok Keung*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 *(Note)*
Revenue	3(a)	**1,128,654**	988,112
Other (expenses)/income	4	**(59,435)**	93,495
Net valuation gain on investment properties	13	**13,500**	–
Administrative expenses		**(703,134)**	(536,524)
Other operating expenses		**(691,339)**	(604,265)
Loss from operations		**(311,754)**	(59,182)
Finance income		**74,319**	28,490
Finance expenses		**(17,490)**	(2,394)
Net finance income	6(b)	**56,829**	26,096
Loss before taxation	6	**(254,925)**	(33,086)
Income tax	7	**(93,676)**	(93,964)
Loss for the year		**(348,601)**	(127,050)
Attributable to:			
Equity shareholders of the Company		**(360,901)**	(127,050)
Non-controlling interests		**12,300**	–
Loss for the year		**(348,601)**	(127,050)
Basic and diluted loss per share (RMB cents)	11	**(0.72)**	(0.29)

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 61 to 131 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 *(Note)*
Loss for the year		**(348,601)**	(127,050)
Other comprehensive income for the year (after tax and reclassification adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations	*10*	**135,838**	98,742
Total comprehensive income for the year		**(212,763)**	(28,308)
Attributable to:			
Equity shareholders of the Company		**(225,063)**	(28,308)
Non-controlling interests		**12,300**	–
Total comprehensive income for the year		**(212,763)**	(28,308)

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 61 to 131 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000 (Note)
Non-current assets			
Property and equipment	12	**1,952,043**	681,420
Investment properties	13	**446,500**	–
Intangible assets	14	**5,385,625**	5,709,390
Goodwill	15	**1,094,526**	386,380
Other assets	17	**29,035**	–
Deferred tax assets	23(b)	**676**	–
Total non-current assets		**8,908,405**	6,777,190
Current assets			
Inventories	18	**35,604**	44,432
Trade and other receivables	19	**1,255,940**	764,656
Cash at bank and on hand	20	**1,354,070**	1,222,118
Other assets	17	**35,286**	–
Total current assets		**2,680,900**	2,031,206
Current liabilities			
Interest-bearing borrowings	21	**198,500**	–
Trade and other payables	22	**666,838**	401,502
Taxation	23(a)	**122,543**	41,585
Total current liabilities		**987,881**	443,087
Net current assets		**1,693,019**	1,588,119
Total assets less current liabilities		**10,601,424**	8,365,309

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 61 to 131 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000 (Note)
Non-current liabilities			
Interest-bearing borrowings	21	**373,180**	–
Deferred tax liabilities	23(b)	**1,711,492**	1,424,400
Receipt-in-advance	24	**–**	4,031
Deferred income		**3,205**	–
Total non-current liabilities		**2,087,877**	1,428,431
Net assets		**8,513,547**	6,936,878
Capital and reserves			
Share capital	25(c)	**478,794**	366,604
Reserves	25(d)	**7,922,923**	6,570,274
Total equity attributable to equity shareholders of the Company		**8,401,717**	6,936,878
Non-controlling interests		**111,830**	–
Total equity		**8,513,547**	6,936,878

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the board of directors on 28 March 2019.

Wang Yan
Chairman

Dai Bin
Director

The notes on pages 61 to 131 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Attributable to equity shareholders and total equity of the Company								
		Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital surplus RMB'000	Statutory reserve fund RMB'000	Exchange reserves RMB'000	Merger reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
	Note	*25(c)*	*25(d)(i)*	*25(d)(ii)*	*25(d)(iii)*	*25(d)(iv)*	*25(d)(vi)*	*25(d)(vii)*		
Balance at 1 January 2017		366,604	13,862,305	7,508	129,488	701,830	(317,793)	128,704	(7,913,460)	6,965,186
Changes in equity for 2017										
Loss for the year		–	–	–	–	–	–	–	(127,050)	(127,050)
Other comprehensive income		–	–	–	–	–	98,742	–	–	98,742
Total comprehensive income		–	–	–	–	–	98,742	–	(127,050)	(28,308)
Transfer to reserve fund	*25(d)(iv)*	–	–	–	–	52,294	–	–	(52,294)	–
Balance at 31 December 2017 *(Note)*		366,604	13,862,305	7,508	129,488	754,124	(219,051)	128,704	(8,092,804)	6,936,878

	Note	Attributable to equity shareholders of the Company											
		Share capital RMB'000	**Share premium RMB'000**	**Capital redemption reserve RMB'000**	**Capital surplus RMB'000**	**Statutory reserve fund RMB'000**	**Shares held for share award scheme RMB'000**	**Exchange reserves RMB'000**	**Merger reserves RMB'000**	**Accumulated losses RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
	Note	***25(c)***	***25(d)(i)***	***25(d)(ii)***	***25(d)(iii)***	***25(d)(iv)***	***25(d)(v)***	***25(d)(vi)***	***25(d)(vii)***				
Balance at 1 January 2018		**366,604**	**13,862,305**	**7,508**	**129,488**	**754,124**	**–**	**(219,051)**	**128,704**	**(8,092,804)**	**6,936,878**	**–**	**6,936,878**
Changes in equity for 2018													
Loss for the year		–	–	–	–	–	–	–	–	**(360,901)**	**(360,901)**	**12,300**	**(348,601)**
Other comprehensive income		–	–	–	–	–	–	**135,838**	–	–	**135,838**	–	**135,838**
Total comprehensive income		–	–	–	–	–	–	**135,838**	–	**(360,901)**	**(225,063)**	**12,300**	**(212,763)**
Transfer to reserve fund	*25(d)(iv)*	–	–	–	–	**52,509**	–	–	–	**(52,509)**	–	–	–
Issue of shares under rights issue	*25(c)(i)*	**112,190**	**1,716,508**	–	–	–	–	–	–	–	**1,828,698**	–	**1,828,698**
Shares purchased for the share award scheme	*25(d)(v)*	–	–	–	–	–	**(138,796)**	–	–	–	**(138,796)**	–	**(138,796)**
Acquisition of business	*5*	–	–	–	–	–	–	–	–	–	–	**99,530**	**99,530**
Balance at 31 December 2018		**478,794**	**15,578,813**	**7,508**	**129,488**	**806,633**	**(138,796)**	**(83,213)**	**128,704**	**(8,506,214)**	**8,401,717**	**111,830**	**8,513,547**

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 61 to 131 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 *(Note)*
Operating activities			
Loss for the year		**(348,601)**	(127,050)
Adjustments for:			
Depreciation	*6(c)*	**84,582**	46,752
Amortisation	*6(c)*	**324,333**	324,333
Net finance income	*6(b)*	**(57,951)**	(26,652)
Net loss on disposal of property and equipment	*4*	**189,223**	3,501
Change in fair value of investment properties	*13*	**(13,500)**	–
Net loss on disposal of subsidiaries	*4*	**–**	21,629
Net realised and unrealised loss on financial assets measured at fair value through profit or loss	*4*	**3,018**	–
Income tax	*7*	**93,676**	93,964
Operating profit before changes in working capital		**274,780**	336,477
Decrease/(increase) in trade receivables and other assets		**217,027**	(19,673)
(Decrease)/increase in trade and other payables		**(608,159)**	1,875
Decrease in inventories		**9,040**	2,172
Cash (used in)/generated from operating activities		**(107,312)**	320,851
Income tax paid	*23(a)*	**(169,608)**	(183,725)
Net cash (used in)/generated from operating activities		**(276,920)**	137,126

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 61 to 131 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 *(Note)*
Investing activities			
Proceeds from disposal of a subsidiary, net of cash disposed of		–	2,512
Acquisition of the Hangzhou business, net of cash paid	5	(997,472)	–
Proceeds from sales of financial assets measured at fair value through profit or loss		19,154	–
Net proceeds from disposal of property and equipment		9,783	2,174
Interest received		22,074	26,016
Purchase of property and equipment		(86,088)	(80,689)
Government grant received		2,880	–
Payment for loans and advances to third parties		(1,737,580)	(835,910)
Proceeds from repayment of loans and advances to third parties		1,921,933	150,464
Prepayment of deposits for acquisition of projects		(777,000)	–
Proceeds from repayment of deposits for acquisition of projects		377,000	400,000
Decrease/(increase) in time deposits		125,000	(75,000)
Net cash used in investing activities		**(1,120,316)**	(410,433)
Financing activities			
Purchase of shares for the purpose of share award scheme		(138,796)	–
Proceeds from issuance of shares under rights issue	25(c)	1,828,698	–
Repayment of interest-bearing borrowings		(20,500)	–
Advances from a director	30(b)	–	1,445,026
Repayment to related parties	30(b)	–	(1,487,800)
Interest paid		(16,368)	–
Net cash generated from/(used in) financing activities		**1,653,034**	(42,774)
Net increase/(decrease) in cash and cash equivalents		**255,798**	(316,081)
Cash and cash equivalents at 1 January		**1,097,118**	1,414,956
Effect of foreign exchange rate changes		**1,154**	(1,757)
Cash and cash equivalents at 31 December	20(a)	**1,354,070**	1,097,118

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 61 to 131 form part of these financial statements.

Notes to the Financial Statements

1 General information

Renhe Commercial Holdings Company Limited (the "Company") was incorporated in the Cayman Islands on 20 November 2007 and registered as an exempted company with limited liability under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together referred to as the "Group") are principally engaged in the operation of agriculture wholesale markets in the People's Republic of China (the "PRC").

On 24 July 2018, Yield Smart Limited has acquired the entire issued share capital of Wise Path Holdings Limited, a company incorporated in the British Virgin Islands (the "BVI"), in turn to acquire the fruit, vegetables and seafood wholesale markets businesses, in Hangzhou, the PRC (the "Hangzhou Acquisition").

2 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 (the "IASB") and the applicable 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 (the "Listing Rules"). 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 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group. The measurement basis used in the preparation of the financial statements is the historical cost basis, except for that the following assets are stated at their fair value as explained in the accounting policies set out below:

— Other investments in debt and equity securities (see Note 2(g));

— Investment property (see Note 2(h)).

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.

2 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 35.

(c) Changes in accounting policies

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

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in these annual financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) IFRS 9, Financial instruments

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

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The adoption of IFRS 9 does not have a significant impact on the opening balance of equity at 1 January 2018. Comparative information continues to be reported under IAS 39.

2 Significant accounting policies *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) IFRS 9, Financial instruments (Continued)

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

a Classification of financial assets and financial liabilities

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

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(g), 2(l)(i), 2(o) and 2(q).

The measurement categories for all financial assets and financial liabilities remain the same. The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

b Credit losses

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

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(l).

No additional ECLs at 1 January 2018 was recognised by the Group by the adoption of IFRS 9.

2 Significant accounting policies *(Continued)*

(c) Changes in accounting policies *(Continued)*

(i) IFRS 9, Financial instruments (Continued)

c Transition

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

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

— The assessments on the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

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

The adoption of IFRS 9 does not have any material impact on the financial position and the financial result of the Group.

(ii) IFRS 15, Revenue from contracts with customers

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

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

The Group has elected to use the cumulative effect transition method and there is no impact to the opening balance of equity at 1 January 2018 on the initial application of IFRS 15. Comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

2 Significant accounting policies *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

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

Timing of revenue recognition

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

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

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

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

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

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

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

This change in accounting policy had no material impact on opening balances at 1 January 2018 and the Group's financial results from 2018 onwards.

(d) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the subsidiaries carrying on the principal activities of the Group. The Company and its overseas subsidiaries' functional currency is Hong Kong dollar ("HKD"). Since the Group's operations are conducted in the PRC, the Group has adopted RMB as its presentation currency.

2 Significant accounting policies *(Continued)*

(e) 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. 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.

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 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 Significant accounting policies *(Continued)*

(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 acquiree; 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 2(l)).

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.

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, 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 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 29(e). These investments are subsequently accounted for as follows, depending on their classification.

2 Significant accounting policies *(Continued)*

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

(A) Policy applicable from 1 January 2018

Investments other than equity investments

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

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(v)(v)).

— 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.

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

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(v)(iv).

2 Significant accounting policies *(Continued)*

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

(B) Policy applicable prior to 1 January 2018

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

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see Note 2(l)(i) — policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in Notes 2(v)(iv) and 2(v)(v), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see Note 2(l)(i) — policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(h) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(k)) 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 2(v)(i).

Transfers to, or from, investment properties are made when, and only when, there is a change in use. For a transfer from investment property carried at fair value to inventories, the property's deemed cost shall be its fair value at the date of change in use. For a transfer from inventories to investment property that will be at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in profit or loss.

2 Significant accounting policies *(Continued)*

(h) Investment property *(Continued)*

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see Note 2(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in Note 2(k).

(i) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(l)(ii)).

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.

Gains or losses arising from the retirement or disposal of an item of property 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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

• Land and buildings	10–40 years
• Machinery equipment	5–10 years
• Office equipment	5–10 years
• Vehicles	5–20 years
• Leasehold improvements	3–20 years

Where parts of an item of property and equipment have different useful lives, the cost or valuation 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.

2 Significant accounting policies *(Continued)*

(j) Intangible assets (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 2(l)(ii)).

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:

- Favourable term lease contract 20 years

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.

(k) Leased assets

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

(i) *Classification of assets leased to the Group*

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

— property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see Note 2(h)); and

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

2 Significant accounting policies *(Continued)*

(k) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(l)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see Note 2(h)) or is held for development for sale.

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables); and

— lease receivables.

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

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 *(Continued)*

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).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

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 receivable.

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.

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 *(Continued)*

Measurement of ECLs *(Continued)*

ECLs are measured on either of the following bases:

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

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

Loss allowances for trade receivables, lease 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 all other financial instruments (including loan commitments issued), 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 (including a loan commitment) 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.

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 *(Continued)*

Significant increases in credit risk *(Continued)*

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.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

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, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 *(Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(v)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

— significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018

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

— significant financial difficulties of the debtor;

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

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

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

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

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

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

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

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

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

— *(Continued)*

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

(ii) 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 (other than properties carried at revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets;

— goodwill; and

— investments in subsidiaries, associates in the company's statement of financial position.

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

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(ii) 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.

2 Significant accounting policies *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

(iii) 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 HKAS 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 2(l)(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.

(m) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

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.

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.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(m)(i)), or property, plant and equipment (see Note 2(i)) or intangible assets (see Note 2(j)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

2 Significant accounting policies *(Continued)*

(m) Inventories and other contract costs *(Continued)*

(ii) Other contract costs (Continued)

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, or property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(v).

(n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(v)) 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 2(l)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(o)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(v)). 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 2(o)).

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 2(v)).

2 Significant accounting policies *(Continued)*

(o) 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 Note2(n)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(l)(i)).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. 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.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks 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. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(l)(i).

(r) 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 costs (see Note 2(x)).

(s) Employee benefits

(i) *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.

2 Significant accounting policies *(Continued)*

(s) Employee benefits *(Continued)*

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options 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 employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital 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 capital 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).

(iii) Terminate benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(t) 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.

2 Significant accounting policies *(Continued)*

(t) 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 2(h), 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 the 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.

2 Significant accounting policies *(Continued)*

(t) Income tax *(Continued)*

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 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.

(u) Provisions and contingent liabilities

(i) 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.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

2 Significant accounting policies *(Continued)*

(u) Provisions and contingent liabilities *(Continued)*

(iii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 2(u)(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 2(u)(i).

(v) 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.

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

(i) Lease income from operating lease

Lease income from operating lease is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised in profit or loss as an integral part of the total lease income, over the term of the lease. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Commission income

Commission income from lease and management of agriculture wholesale market is recognised in profit or loss on a straight-line basis over the period in which the goods are traded in the agriculture wholesale market.

(iii) Services

Revenue is recognised upon services transferred to the customer.

(iv) 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.

2 Significant accounting policies *(Continued)*

(v) Revenue and other income *(Continued)*

(v) 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 or FVOCI (recycling) 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 2(l)(i)).

(vi) Government grants

Government grants are recognised in the statement of financial position 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 deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) 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 each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) 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.

2 Significant accounting policies *(Continued)*

(y) 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.

2 Significant accounting policies *(Continued)*

(z) 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.

3 Revenue and segment reporting

(a) Disaggregation of revenue

Disaggregation of revenue with customers by service lines is as follows:

	2018 **RMB'000**	2017 RMB'000 *(Note)*
Revenue from contracts with customers within the scope of IFRS 15		
Commission income	**810,572**	738,941
Revenue from other sources		
Operating lease	**318,082**	249,171
	1,128,654	988,112

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see Note 2(c)(ii)).

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenue during the year (2017: Nil).

3 Revenue and segment reporting *(Continued)*

(b) Segment reporting

The Group manages its business in a single segment, namely operation of agriculture wholesale markets. The Group's most senior executive management assesses performance and allocates resources on a group basis. Accordingly, no operating segment information is presented.

All of the Group's operations are located in the PRC, therefore no geographical segment reporting is presented.

4 Other (expenses)/income

	2018 **RMB'000**	2017 RMB'000
Market service fee income	**126,845**	117,701
Loss on disposal of property and equipment	**(189,223)**	(3,501)
Government grants	**1,822**	893
Loss on disposal of subsidiaries	**–**	(21,629)
Net realised and unrealised loss on financial assets measured at FVPL	**(3,018)**	–
Others	**4,139**	31
	(59,435)	93,495

5 Acquisition of business

On 5 June 2018, Yield Smart Limited entered into a sale and purchase agreement with Vast Equity Investment Limited, which is wholly-owned by Mr. Suen, an independent third party. Pursuant to the sale and purchase agreement, Yield Smart Limited would acquire the entire issued share capital of Wise Path Holdings Limited, in turn to acquire the fruit, vegetables and seafood wholesale markets businesses (the "Hangzhou Business"), in Hangzhou, the PRC.

The total consideration for the Hangzhou Acquisition was HKD1,470,000,000 and was satisfied by cash.

The above Hangzhou Acquisition was completed as all the conditions had been fulfilled or waived on 24 July 2018. As a result, Wise Path Holdings Limited became a wholly-owned subsidiary of the Company.

5 Acquisition of business *(Continued)*

The identifiable assets acquired and liabilities assumed in the above Hangzhou Acquisition were as follows:

	Note	**Recognised values on acquisition** RMB'000
Property and equipment	*12*	1,602,514
Investment properties	*13*	433,000
Trade and other receivables		263,933
Cash at bank and on hand		274,269
Other assets		49,182
Interest-bearing borrowings		(592,180)
Trade and other payables		(922,985)
Income tax payables	*23(a)*	(74,765)
Deferred tax liabilities	*23(b)*	(368,541)
Deferred income		(1,302)
Total identifiable net assets		663,125
Less: non-controlling interests		(99,530)
Net identifiable assets acquired		563,595
Goodwill	*15*	708,146
Total cash consideration		1,271,741
Less: cash at bank and on hand acquired		(274,269)
Net cash outflow		997,472

The goodwill is attributable mainly to the Group's management and workforce, and the synergies with other agriculture markets under common control.

The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair values of property and equipment, the directors of the Group have referenced the fair value adjustments to valuation reports issued by independent valuers. The fair value of property and equipment located in the PRC is determined by discounting a projected cash flow projections based on financial budgets approved by management covering a 10-year period. These cash flow projections adopted annual sales growth rates ranging from –3% to 5%, which are based on historical experience with the operations of the Market. Cash flows beyond the 10-year period are extrapolated using an estimated weighted average sales growth rate of 2.5%. The cash flows are discounted using discount rate of 11.1%. The discount rates used are pre-taxed and reflect specific risks relating to the respective property and equipment.

6 Loss before taxation

(a) Personnel expenses

	2018 RMB'000	2017 RMB'000
Wages, salaries and other benefits	**349,221**	249,731
Contributions to defined contribution retirement plans	**22,538**	16,700
	371,759	266,431

(b) Net finance income

	2018 RMB'000	2017 RMB'000
Finance income		
— Interest income on bank deposits	**7,549**	4,178
— Interest income on loans to third parties	**65,616**	24,312
— Net foreign exchange gain	**1,154**	–
	74,319	28,490
Finance expenses		
— Interest on interest-bearing borrowings	**(16,368)**	–
— Net foreign exchange loss	**–**	(1,838)
— Bank charges and others	**(1,122)**	(556)
	(17,490)	(2,394)
	56,829	26,096

6 Loss before taxation *(Continued)*

(c) Other items

	Note	2018 RMB'000	2017 RMB'000
Depreciation	*12*	**84,582**	46,752
Amortisation	*14*	**324,333**	324,333
Advertisement expenses		**1,479**	20,611
Repairs and maintenance		**37,502**	18,520
Utility charges		**46,830**	36,453
Operating lease charges		**140,331**	132,256
Auditors' remuneration		**14,538**	7,039

7 Income tax

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

	Note	2018 RMB'000	2017 RMB'000
Current tax			
PRC Enterprise Income Tax			
Provision for the year		**174,661**	174,555
Under-provision in respect of prior years		**1,140**	493
		175,801	175,048
Deferred tax			
Reversal and origination of temporary difference	*23(b)*	**(82,125)**	(81,084)
		93,676	93,964

7 Income tax *(Continued)*

(a) Income tax in the consolidated statement of profit or loss represents: *(Continued)*

(i) According to the Corporate Income Tax Law of the PRC, from 1 January 2008, the statutory income tax rate applicable to the Group's subsidiaries in the PRC is 25% (2017: 25%).

(ii) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(iii) No provision for Hong Kong Profits Tax has been made as the Group did not earn any profit subject to Hong Kong Profits Tax during the year.

(b) Reconciliation between tax expenses and accounting loss at applicable tax rates:

	2018	2017
	RMB'000	RMB'000
Loss before taxation	**(254,925)**	(33,086)
Income tax calculated at the PRC statutory income tax rate	**(63,731)**	(8,272)
Tax effect of unused tax losses	**156,832**	47,817
Effect of non-taxable expenses	**33,886**	54,419
Effect of non-taxable income	**(33,311)**	–
	93,676	93,964

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2018					
Chair person					
Dai Yongge (resigned in September 2018)	–	15,772	26,286	–	42,058
Wang Yan (appointed in September 2018)	–	4,556	8,762	–	13,318
Executive directors					
Wang Hongfang (resigned in September 2018)	–	10,399	–	–	10,399
Dai Bin	–	4,206	7,010	–	11,216
Non-executive directors					
Hawken Xiu Li (resigned in December 2018)	–	1,051	–	–	1,051
Jiang Mei (resigned in December 2018)	–	1,051	–	–	1,051
Zhang Xingmei (resigned in December 2018)	–	1,051	–	–	1,051
Zhang Dabin (resigned in December 2018)	–	1,051	–	–	1,051
Wang Chunrong (resigned in December 2018)	–	1,051	–	–	1,051
Yin Jianhong (appointed in December 2018)	–	–	–	–	–
Yang Yuhua (appointed in December 2018)	–	–	–	–	–
Independent non-executive directors					
Fan Ren-Da, Anthony	–	424	–	–	424
Wang Yifu	–	315	–	–	315
Wang Shengli (resigned in December 2018)	–	315	–	–	315
Leung Chung Ki	–	315	–	–	315
Tang Hon Man	–	315	–	–	315
	–	41,872	42,058	–	83,930

8 Directors' emoluments *(Continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
2017					
Chair person					
Dai Yongge	–	20,062	6,687	–	26,749
Executive directors					
Wang Hongfang	–	13,032	–	–	13,032
Dai Bin	–	4,012	–	–	4,012
Non-executive directors					
Hawken Xiu Li	–	1,003	–	–	1,003
Jiang Mei	–	1,003	–	–	1,003
Zhang Xingmei	–	1,003	–	–	1,003
Zhang Dabin	–	1,003	–	–	1,003
Wang Chunrong	–	995	–	–	995
Independent non-executive directors					
Fan Ren-Da, Anthony	–	402	–	–	402
Wang Yifu	–	301	–	–	301
Wang Shengli	–	301	–	–	301
Leung Chung Ki	–	301	–	–	301
Tang Hon Man	–	301	–	–	301
	–	43,719	6,687	–	50,406

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2017: three) are directors whose emoluments are disclosed in Note 8. The emolument in respect of the other one (2017: two) individual is as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**6,834**	11,766
Retirement scheme contributions	**16**	30
	6,850	11,796

The emolument of the one (2017: two) individual with the highest emoluments is within the following band:

	2018 Number of individuals	2017 Number of individuals
HKD6,000,001–HKD6,500,000	**–**	1
HKD7,500,001–HKD8,000,000	**1**	1

10 Other comprehensive income

	2018 RMB'000	2017 RMB'000
Exchange differences on translation of:		
— financial statements of overseas subsidiaries before tax amount and net of tax amount	**113,930**	88,674
Reclassification of foreign currency translation on disposal of subsidiaries	**21,908**	10,068
	135,838	98,742

11 Basic and diluted loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB360,901,000 (2017: loss of RMB127,050,000) and the weighted average of 49,908,440,000 ordinary shares (2017: 43,966,100,000 ordinary shares) in issue during the reporting period. The weighted average number of shares outstanding during the year ended 31 December 2017 was not adjusted to reflect the issuance of shares under rights issue, calculated as follows:

Weighted average number of ordinary shares

	Note	**2018** **'000**	2017 '000
Issued ordinary shares at 1 January		**43,966,100**	43,966,100
Effect of shares issued under rights issue	*25(c)(i)*	**6,070,936**	–
Effect of shares held for share award scheme	*25(d)(v)*	**(128,596)**	–
Weighted average number of ordinary shares at 31 December		**49,908,440**	43,966,100

During the years ended 31 December 2018 and 2017, diluted loss per share is calculated on the same basis as basic loss per share.

12 Property and equipment

	Land and Buildings RMB'000 *(ii)*	Machinery equipment RMB'000	Office equipment RMB'000	Vehicles RMB'000	Leasehold improvements RMB'000 *(i)*	Under construction RMB'000	Total RMB'000
Cost							
At 1 January 2017	–	39,724	56,076	647,057	60,166	103,730	906,753
Exchange reserve	–	–	(970)	(42,073)	–	–	(43,043)
Additions	–	4,410	7,727	4,912	17,100	59,162	93,311
Disposals	–	(5,319)	(929)	(685)	–	–	(6,933)
Disposal of a subsidiary	–	–	–	(24,133)	–	–	(24,133)
Transfer from under construction	–	6,847	1,258	–	46,199	–	54,304
Transfer to property and equipment	–	–	–	–	–	(54,304)	(54,304)
At 31 December 2017	–	45,662	63,162	585,078	123,465	108,588	925,955
At 1 January 2018	**–**	**45,662**	**63,162**	**585,078**	**123,465**	**108,588**	**925,955**
Exchange reserve	**–**	**–**	**724**	**27,860**	**–**	**–**	**28,584**
Acquisition of business *(Note 5)*	**1,583,114**	**2,278**	**8,827**	**7,292**	**164**	**839**	**1,602,514**
Additions	**–**	**17,743**	**6,752**	**8,284**	**23,196**	**38,515**	**94,490**
Disposals	**–**	**(653)**	**(2,573)**	**(591,254)**	**–**	**–**	**(594,480)**
Transfer from under construction	**–**	**8,523**	**1,070**	**–**	**118,229**	**–**	**127,822**
Transfer to property and equipment	**–**	**–**	**–**	**–**	**–**	**(127,822)**	**(127,822)**
At 31 December 2018	**1,583,114**	**73,553**	**77,962**	**37,260**	**265,054**	**20,120**	**2,057,063**
Accumulated depreciation							
At 1 January 2017	–	5,863	17,281	198,886	830	–	222,860
Exchange reserve	–	–	(685)	(12,983)	–	–	(13,668)
Charge for the year	–	3,200	8,293	30,874	4,385	–	46,752
Written back on disposals	–	(1,010)	(90)	(158)	–	–	(1,258)
Written back on disposal of a subsidiary	–	–	–	(10,151)	–	–	(10,151)
At 31 December 2017	–	8,053	24,799	206,468	5,215	–	244,535
At 1 January 2018	**–**	**8,053**	**24,799**	**206,468**	**5,215**	**–**	**244,535**
Exchange reserve	**–**	**–**	**551**	**9,894**	**–**	**–**	**10,445**
Charge for the year	**23,500**	**6,035**	**10,403**	**31,642**	**13,002**	**–**	**84,582**
Written back on disposals	**–**	**(267)**	**(2,488)**	**(231,787)**	**–**	**–**	**(234,542)**
At 31 December 2018	**23,500**	**13,821**	**33,265**	**16,217**	**18,217**	**–**	**105,020**
Net book value							
At 31 December 2017	–	37,609	38,363	378,610	118,250	108,588	681,420
At 31 December 2018	**1,559,614**	**59,732**	**44,697**	**21,043**	**246,837**	**20,120**	**1,952,043**

(i) Amounting to RMB16,017,000 of under construction represents construction in relation to leasehold improvements (2017: RMB102,826,000).

(ii) At 31 December 2018, certain of land and buildings with an aggregate carrying value of RMB847,770,000 were pledged as securities for interest-bearing borrowings of the Group (Note 21(c)).

13 Investment properties

	Note	RMB'000
At fair value:		
At 31 December 2017		–
Acquisition of business	*5*	433,000
Fair value adjustment		13,500
At 31 December 2018		446,500

Notes:

(i) All the investment properties owned by the Group are located in the PRC.

(ii) At 31 December 2018, certain of investment properties with an aggregate carrying value of RMB441,762,000 were pledged as securities for interest-bearing borrowings of the Group (Note 21(c)).

Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the investment property measured at the end of the reporting period at 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

13 Investment properties *(Continued)*

Fair value measurement of investment properties *(Continued)*

(i) Fair value hierarchy (Continued)

	Fair value measurements categorised into Level 3 2018 RMB'000
Recurring fair value measurement	
Investment properties:	
— PRC	**446,500**

The investment properties were measured using Level 3 valuations. 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.

All investment properties of the Group were revalued at 31 December 2018. The valuations were carried out by an independent firm of surveyors, BMI Appraisals Limited, who has among their staff fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The management of the Group have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each reporting period.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Weighted average
Investment properties — PRC	Discounted cash flow	Risk-adjusted discount rate	11.1%
		Expected market rental growth	2.5%

The fair value of investment properties located in the PRC is determined by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and occupancy rate, and negatively correlated to the risk-adjusted discount rates.

14 Intangible assets

	Favourable term lease contract (i) RMB'000	Others RMB'000	Total RMB'000
Cost:			
At 1 January 2017	6,486,667	12,613	6,499,280
Exchange reserve	–	(827)	(827)
At 31 December 2017	6,486,667	11,786	6,498,453
At 1 January 2018	**6,486,667**	**11,786**	**6,498,453**
Exchange reserve	**–**	**568**	**568**
At 31 December 2018	**6,486,667**	**12,354**	**6,499,021**
Accumulated amortisation:			
At 1 January 2017	(464,730)	–	(464,730)
Charge for the year	(324,333)	–	(324,333)
At 31 December 2017	(789,063)	–	(789,063)
At 1 January 2018	**(789,063)**	**–**	**(789,063)**
Charge for the year	**(324,333)**	**–**	**(324,333)**
At 31 December 2018	**(1,113,396)**	**–**	**(1,113,396)**
Net book value:			
At 31 December 2017	5,697,604	11,786	5,709,390
At 31 December 2018	**5,373,271**	**12,354**	**5,385,625**

14 Intangible assets *(Continued)*

The amortisation charge for the year is included in "other operating expenses" in the consolidated statement of profit or loss.

(i) In connection with the acquisition occurred in July 2015, the Group (as lessee) entered into 20 years lease agreements with market owners of the agriculture wholesale markets (as lessor), according to which the rent to be paid is favourable as compared with the fair value of market rent. As at the acquisition date on 27 July 2015, the Group recognised these favourable term lease agreements as an intangible asset at its fair value amounting to RMB6,486,667,000 which is amortised on a straight-line basis over the contractual life of the lease agreements. The amortisation charge for the year of RMB324,333,000 (2017: RMB324,333,000) is included in other operating expenses in the consolidated statement of profit or loss.

15 Goodwill

	Note	RMB'000
Cost:		
At 1 January 2017, 31 December 2017 and 1 January 2018		1,519,330
Addition acquired through acquisition of business	*5*	708,146
At 31 December 2018		**2,227,476**
Accumulated impairment losses:		
At 1 January 2017, 31 December 2017 and 31 December 2018		**(1,132,950)**
Carrying amount:		
At 31 December 2017		386,380
At 31 December 2018		**1,094,526**

At 31 December 2018, goodwill, which arose from the acquisition of agriculture wholesale markets business which was completed on 27 July 2015 and the acquisition of the Hangzhou Business which was completed on 24 July 2018, amounted to RMB386,380,000 and RMB708,146,000, respectively. The agriculture wholesale markets business acquired in 2015 and the Hangzhou Business are identified as two separate cash-generating units, the recoverable amounts of which are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 10-year period. A longer period of the forecasts used was because agriculture wholesale markets operate stably and could be projected based on management's best estimation. Cash flows beyond the 10-year period are extrapolated using an estimated weighted average growth rate of 2.5% for the agriculture wholesale markets business acquired in 2015 and the Hangzhou Business, which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate of 15.44% and 11.1% for the agriculture wholesale markets business acquired in 2015 and the Hangzhou Business, respectively. The discount rates used are pre-tax and reflect specific risks relating to the business.

16 Interests in subsidiaries

At 31 December 2018, the Company had direct or indirect interests in following subsidiaries. The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. All of which are private companies, particulars of which are set out below:

Name of subsidiary	Place and date of incorporation/ establishment	Issued/ paid-in capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Renhe Commercial Management Limited	Hong Kong 18 December 2007	HKD1	–	100%	Investment holding
Yield Smart Limited	British Virgin Islands 30 March 2015	USD2	100%	–	Investment holding
Shouguang Dili Agricultural Product Logistic Park Co., Ltd.	Shouguang, the PRC 18 December 2014	USD32,600	–	100%	Lease and management of agriculture wholesale market
Shenyang Shouguang Dili Agricultural Produce and Side Products Co., Ltd.	Shenyang, the PRC 14 November 2014	RMB60,200,000	–	100%	Lease and management of agriculture wholesale market
Guiyang Juzhengrun Agricultural Products Market Management Co., Ltd.	Guiyang, the PRC 23 December 2014	HKD200,000	–	100%	Lease and management of agriculture wholesale market
Harbin Dili Agricultural Produce and Side Products Co., Ltd.	Harbin, the PRC 24 October 2014	RMB200,000	–	100%	Lease and management of agriculture wholesale market
Harbin Dalikai Agricultural Produce and Side Products Co., Ltd.	Harbin, the PRC 6 November 2014	RMB100,000	–	100%	Lease and management of agriculture wholesale market
Qiqihar Dili Agricultural Products Market Management Co., Ltd.	Qiqihar, the PRC 31 October 2014	USD20,000	–	100%	Lease and management of agriculture wholesale market

16 Interests in subsidiaries *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued/ paid-in capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Mudanjiang Dili Agricultural Produce and Side Products Co., Ltd.	Mudanjiang, the PRC 18 November 2014	RMB100,000	–	100%	Lease and management of agriculture wholesale market
Hangzhou Fruit-products Group Co., Ltd.	Hangzhou the PRC 18 June 2001	RMB120,000,000	–	80%	Lease and management of agriculture wholesale market
Hangzhou Fruit-products Wholesale Co., Ltd.	Hangzhou the PRC 23 May 2006	RMB100,000,000	–	80%	Lease and management of agriculture wholesale market
Hangzhou Vegetable Co., Ltd.	Hangzhou The PRC 8 June 2001	RMB72,600,000	–	100%	Lease and management of agriculture wholesale market
Hangzhou Vegetable Logistics Co., Ltd.	Hangzhou The PRC 4 December 2006	RMB20,000,000	–	100%	Lease and management of agriculture wholesale market
Hangzhou Changhai Industrial Co., Ltd.	Hangzhou The PRC 20 January 2006	Registered capital of RMB159,360,000 and paid-in capital of RMB131,446,000	–	94.63%	Lease and management of agriculture wholesale market

The English translation of the names of the PRC incorporated companies are for reference only and the official names of these entities are in Chinese.

17 Other assets

	Note	2018 RMB'000	2017 RMB'000
Financial assets measured at FVPL	*(i)*	**27,010**	–
Lease incentive	*(ii)*	**37,311**	–
		64,321	–
Representing:			
— Non-current		**29,035**	–
— Current		**35,286**	–
		64,321	–

(i) Financial assets measured at FVPL

Financial assets measured at FVPL represent investments in trust units with no guarantee of principal or returns. As of 31 December 2018, the fair value of financial assets held by the Group is RMB27,010,000.

(ii) Lease incentive

The Group provided lease incentive to some lessees in return for their commitments to operate in the Group's agriculture wholesale markets in a certain years.

18 Inventories

	2018 RMB'000	2017 RMB'000
Trading goods	**35,604**	44,432
	35,604	44,432

19 Trade and other receivables

	Note	2018 RMB'000	2017 RMB'000
Amounts due from related parties	*30(c)*	**400,048**	9,190
Loans to third parties	*(i)*	**572,274**	687,920
Receivable for disposal of property and equipment		**181,794**	–
Others		**101,824**	67,546
		1,255,940	764,656

(i) Loans to third parties

At 31 December 2018, loans to third parties are unsecured with principal ranging from HKD50 million to HKD400 million each, which are subject to a fixed interest rate of 9% to 22% per annum. All of the balances at 31 December 2018 had been fully settled up till the date of issuance of these financial statements.

20 Cash at bank and on hand and other cash flow information

(a) Cash at bank and on hand comprise:

	2018 RMB'000	2017 RMB'000
Cash on hand	**26,665**	11,883
Cash at bank	**1,327,405**	1,210,235
	1,354,070	1,222,118
Representing:		
— Cash and cash equivalents	**1,354,070**	1,097,118
— Time deposits with original maturity over three months	**–**	125,000
	1,354,070	1,222,118

The Group's operation in the PRC (excluding Hong Kong) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

20 Cash at bank and on hand and other cash flow information *(Continued)*

(b) 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.

	Note	Interest-bearing borrowings RMB'000 *(Note 21)*	Amounts due to related parties RMB'000 *(Note 30)*	Interest paid RMB'000	Total RMB'000
At 1 January 2018		–	–	–	–
Additions through acquisition of business	5	592,180	–	–	592,180
Changes from financing cash flows:					
Repayment of interest-bearing borrowings		(20,500)	–	–	(20,500)
Interest paid		–	–	16,368	16,368
Total changes from financing cash flows		(20,500)	–	16,368	(4,132)
Other change:					
Interest expenses	6(b)	–	–	(16,368)	(16,368)
At 31 December 2018		571,680	–	–	571,680
At 1 January 2017		–	42,774	–	42,774
Changes from financing cash flows:					
Advances from a director		–	1,445,026	–	1,445,026
Repayment to related parties		–	(1,487,800)	–	(1,487,800)
Total changes from financing cash flows		–	(42,774)	–	(42,774)
At 31 December 2017		–	–	–	–

21 Interest-bearing borrowings

(a) The short-term interest-bearing borrowings are analysed as follows:

	Note	2018 RMB'000	2017 RMB'000
Bank loans, secured by property and equipment		**130,000**	–
		130,000	–
Add: current portion of long-term interest-bearing borrowings	*21(b)*	**68,500**	–
		198,500	–

(b) The long-term interest-bearing borrowings are analysed as follows:

	Note	2018 RMB'000	2017 RMB'000
Bank loans, secured by investment properties and guaranteed by third parties		**347,000**	–
Bank loans, secured by investment properties		**94,680**	–
		441,680	–
Less: current portion of long-term interest-bearing borrowings	*21(a)*	**(68,500)**	–
		373,180	–

The long-term interest-bearing borrowings are repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**68,500**	–
After 1 year but within 2 years	**73,500**	–
After 2 years but within 5 years	**242,680**	–
After 5 years	**57,000**	–
	441,680	–

21 Interest-bearing borrowings *(Continued)*

(c) The following assets and their respective carrying values at 31 December 2018 and 2017 are pledged to secure the Group's interest-bearing borrowings:

	Note	2018 RMB'000	2017 RMB'000
Property and equipment	*12*	**847,770**	–
Investment properties	*13*	**441,762**	–
		1,289,532	–

(d) Certain of the Group's interest-bearing borrowings are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loan would become repayable on demand. At 31 December 2018, none of the covenants relating to the interest-bearing borrowings had been breached.

22 Trade and other payables

	Note	2018 RMB'000	2017 RMB'000
Construction payables	*(i)*	**82,885**	74,483
Other taxes payable		**5,261**	6,456
Amounts due to related parties	*30(c)*	**10,892**	3,760
Salary and welfare expenses payable		**65,893**	23,947
Professional service fee payables		**6,302**	3,800
Others		**33,931**	4,336
Financial liabilities measured at amortised cost		**205,164**	116,782
Receipt-in-advance		**79,809**	162,786
Deposits	*(ii)*	**381,865**	121,934
		666,838	401,502

22 Trade and other payables *(Continued)*

(i) The ageing analysis of construction payables at the end of the year is as follows:

	2018 RMB'000	2017 RMB'000
Due within one year or on demand	**82,885**	74,483

(ii) These mainly represent deposits paid by tenants for the privilege to renew the operating lease contracts upon expiry, and deposits collected from customers to facilitate the payment process of agriculture wholesale markets while using the transaction settlement system.

23 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	Note	2018 RMB'000	2017 RMB'000
PRC Enterprise Income Tax			
At the beginning of the year		**41,585**	50,262
Acquisition of business	*5*	**74,765**	–
Provision for the year		**174,661**	174,555
Tax paid		**(169,608)**	(183,725)
		121,403	41,092
Balance of profits tax provision relating to prior years		**1,140**	493
		122,543	41,585

23 Income tax in the consolidated statement of financial position *(Continued)*

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Note	**Government grants** RMB'000	**Revaluation of investment properties** RMB'000	**Deferred tax liabilities arising from business combination** RMB'000	**Total** RMB'000
At 1 January 2017		–	–	(1,505,484)	(1,505,484)
Credited to profit or loss		–	–	81,084	81,084
At 31 December 2017		–	–	(1,424,400)	(1,424,400)
At 1 January 2018		**–**	**–**	**(1,424,400)**	**(1,424,400)**
Acquisition of business	5	**–**	**(49,044)**	**(319,497)**	**(368,541)**
Credited/(charged) to profit or loss		**676**	**(4,072)**	**85,521**	**82,125**
At 31 December 2018		**676**	**(53,116)**	**(1,658,376)**	**(1,710,816)**

Deferred tax liabilities mainly represent the deferred tax liabilities recognised as a result of the acquisition of agriculture wholesale markets business in July 2015 and the Hangzhou Acquisition in July 2018. It was reversed in line with the amortisation of the intangible asset and the depreciation of the property and equipment identified during the acquisition.

(c) Deferred tax liabilities not recognised

At 31 December 2018, temporary differences relating to the undistributed profits of the Group's PRC subsidiaries amounted to RMB4,070,660,000 (2017: RMB3,647,508,000). Deferred tax liabilities of RMB407,066,000 (2017: RMB364,751,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

24 Non-current receipt-in-advance

The amounts represent the payments received by the Group from tenants of agriculture wholesale markets.

25 Capital and reserves

(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 component of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital surplus RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	366,604	13,862,305	7,508	92,168	13,239	(3,010,893)	11,330,931
Changes in equity for 2017:							
Total comprehensive income for the year	–	–	–	–	(286,787)	(72,747)	(359,534)
Balance at 31 December 2017 and 1 January 2018	**366,604**	**13,862,305**	**7,508**	**92,168**	**(273,548)**	**(3,083,640)**	**10,971,397**
Changes in equity for 2018:							
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**248,540**	**(127,611)**	**120,929**
Issue of shares under rights issue *(Note 25(c)(i))*	**112,190**	**1,716,508**	**–**	**–**	**–**	**–**	**1,828,698**
Balance at 31 December 2018	**478,794**	**15,578,813**	**7,508**	**92,168**	**(25,008)**	**(3,211,251)**	**12,921,024**

(b) Dividends

(i) *Dividends payable to equity shareholders of the Company attributable to the year*

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

The directors of the Company did not approve or pay any dividend in respect of the previous financial year during the year (2017: Nil).

25 Capital and reserves *(Continued)*

(c) Share capital

	2018 Number of shares '000	2018 RMB'000	2017 Number of shares '000	2017 RMB'000
Authorised:				
Ordinary shares of HKD0.01 each	**150,000,000**		80,000,000	
Issued and fully paid:				
At 1 January	**43,966,100**	**366,604**	43,966,100	366,604
Issue of shares under rights issue (i)	**13,189,830**	**112,190**	–	–
At 31 December	**57,155,930**	**478,794**	43,966,100	366,604

(i) Rights issue

During the year ended 31 December 2018, the Group proposed issuance of rights shares at a subscription price of HKD0.163 each on the basis of three rights shares for every ten existing shares held on 8 June 2018 (the "Rights Issue"). On 17 July 2018, a total number of 13,189,830,130 shares, with par value of HKD0.01 each, had been issued. The proceeds raised from the Rights Issue were RMB1,828,698,000.

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value and the proceeds from the issuance of the shares of the Company and the difference between the par value and the consideration paid on the repurchase of the shares of the Company. The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law, the funds in the share premium account of the Company are distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(ii) Capital redemption reserve

Pursuant to section 37 of Companies Law of the Cayman Islands, capital redemption reserve represents the par value of the shares of the Company cancelled and transferred from the retained earnings.

25 Capital and reserves *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iii) *Capital surplus*

Capital surplus mainly represents the book value of assets injected by the investors of the Company's subsidiaries in excess of their share of the registered capital, and the fair value of the estimated number of unexercised share options granted to employees of the Company.

(iv) *Statutory reserve fund*

Pursuant to the Articles of Association of the PRC subsidiaries comprising the Group, appropriations to the general reserve fund were made at a certain percentage of profit after tax determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the directors of the subsidiaries. From 1 January 2008, the Group's PRC subsidiaries are required to transfer 10% of their profit after tax to statutory reserve fund in accordance with the relevant PRC regulations since these subsidiaries became wholly foreign owned enterprises by then. The transfer could no longer be recognised when the accumulated statutory reserve fund reaches 50% of the registered capital. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(v) *Shares held for share award scheme*

On 28 August 2018, the Company adopted a share award scheme (the "Share Award Scheme") with a duration of ten years. The specific objectives of the Share Award Scheme are (i) to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group. Up to 31 December 2018, the board of directors of the Company has not issued any share or granted any awarded shares under the Share Award Scheme to any employee. During the year ended 31 December 2018, 633,844,000 shares were acquired from the market (2017: Nil).

During the year ended 31 December 2018, the Company purchased its own shares by a trustee on the Stock Exchange as follows:

Month/year	**Number of shares purchased**	**Highest price paid per share** HKD	**Lowest price paid per share** HKD	**Total amount paid** RMB'000
September 2018	233,634,000	0.2550	0.1850	49,764
October 2018	217,976,000	0.2700	0.2240	47,737
November 2018	84,002,000	0.2850	0.2480	19,719
December 2018	98,232,000	0.2700	0.2210	21,576
				138,796

25 Capital and reserves *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(vi) Exchange reserves

The exchange reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(vii) Merger reserves

The merger reserves represent the aggregate amount of paid-in capital of the PRC subsidiaries now comprising the Group after elimination of investments in these subsidiaries.

(e) Capital management

The Group's primary objectives on managing capital are to safeguard the Group's ability to continue as a going concern, so that it can fund its operation of agriculture wholesale markets, and provide returns to shareholders, by pricing rental and property management services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group regularly reviews its capital structure and actively monitors current and expected liquidity requirements to ensure its obligations and commitments are met. A proactive approach is taken to forecasting future funding requirements and, when funds are needed, market conditions are evaluated to determine the best form of finance to be secured.

The Group monitors its capital structure on the basis of a gearing ratio, being the interest-bearing borrowings divided by the total assets. At 31 December 2018, the gearing ratio of the Group was 4.93% (31 December 2017: Nil).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 Employee benefit plan

Defined contribution retirement benefit schemes

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Retirement Schemes") organised by the relevant local government authorities in the cities the PRC subsidiaries operate. The Group is required to make contributions to the Retirement Schemes at the rate ranging from 14% to 20% (2017: 18% to 20%) of the eligible employee's salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other obligation for the payment of pension benefits associated with the Retirement Schemes and other post-retirement benefits beyond the annual contributions described above.

The Group also 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 HKD30,000. Contributions to the plan vest immediately.

27 Operating lease

(a) Leases as lessor

The future minimum lease receivables under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2018 RMB'000	2017 RMB'000
Less than one year	34,328	153,869
Between one and two years	–	4,031
	34,328	157,900

(b) Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2018 RMB'000	2017 RMB'000
Less than one year	162,814	130,206
Between one and five years	617,922	479,139
More than five years *(i)*	1,782,819	1,673,184
	2,563,555	2,282,529

(i) The balance mainly represents rentals to be paid for the 20 years lease agreements with market owners of the agriculture wholesale markets.

28 Capital commitments

At 31 December 2018, the Group has the following commitments in respect of continuing operation not provided for in the financial statements:

	2018 RMB'000	2017 RMB'000
Contracted for	16,789	16,586
	16,789	16,586

29 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. 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 and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with a high credit rating assigned by the management of the Group, for which the Group considers to have low credit risk.

The Group measures loss allowances for trade 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 debtors, the loss allowance based on past due status is not further distinguished between the Group's different debtor bases.

Expected loss rates are based on actual loss experience over the past 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.

(b) Liquidity risk

The Group manages cash including the short term investment of cash surpluses and the raising of loans to cover expected cash demands on a group basis. The Group's policy is to regularly monitor its 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.

29 Financial risk management and fair values *(Continued)*

(b) Liquidity risk *(Continued)*

The following table shows 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) and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash outflow					
	Within 1 year or due on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount at 31 December**
Trade and other payables	**587,029**	**–**	**–**	**–**	**587,029**	**587,029**
Interest-bearing borrowings	**229,617**	**96,021**	**275,895**	**59,940**	**661,473**	**571,680**
	816,646	**96,021**	**275,895**	**59,940**	**1,248,502**	**1,158,709**

	2017 Contractual undiscounted cash outflow					
	Within 1 year or due on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Trade and other payables	238,716	–	–	–	238,716	238,716
	238,716	–	–	–	238,716	238,716

(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 long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

29 Financial risk management and fair values *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	At 31 December 2018		At 31 December 2017	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
— Interest-bearing borrowings	4.36–6.00	180,000	–	–
Variable rate borrowings:				
— Interest-bearing borrowings	6.48–6.84	391,680	–	–
Total borrowings		571,680		–
Fixed rate borrowings as a percentage of total borrowings		31%		–

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and accumulated losses by approximately RMB2,938,000 for the year ended 31 December 2018.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate borrowings held by the Group at the end of the reporting period, the impact of which on the Group's loss after tax and accumulated losses is estimated as an annualised impact on interest expense of such a change in interest rates.

29 Financial risk management and fair values *(Continued)*

(d) Foreign currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China ("PBOC") or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the Group's cash and bank balances in RMB were placed with banks in the PRC. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

All the revenue-generating operations of the Group are transacted in RMB. The Group is exposed to foreign currency risk on financing transactions denominated in currencies other than the functional currency of the PRC subsidiaries (RMB) and the overseas group entities (HKD). Depreciation or appreciation of the RMB and HKD against foreign currencies can affect the Group's results. The Group did not hedge its foreign currency exposure.

The following table details the Group's recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Exposure foreign currencies (expressed in Renminbi)					
	2018			2017		
	USD	**HKD**	**RMB**	USD	HKD	RMB
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	**28,830**	**175**	**547**	32,084	167	547
Net exposure arising from recognised assets and liabilities	**28,830**	**175**	**547**	32,084	167	547

29 Financial risk management and fair values *(Continued)*

(d) Foreign currency risk *(Continued)*

The following table indicates the approximate change in the Group's profit after tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax (RMB'000)**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax (RMB'000)
HKD–USD	**0.4%**	**(1)**	0.4%	(17)
	(0.4%)	**1**	(0.4%)	17
HKD–RMB	**5%**	**(27)**	5%	(27)
	(5%)	**27**	(5%)	27
RMB–HKD/USD	**5%**	**(1,078)**	5%	(1,051)
	(5%)	**1,078**	(5%)	1,051

Given the current turbulent market, the reasonably possible changes estimated by the Group are based on the Group's best estimate considering the historical information and the forecast of the future economic situation. Actual changes in foreign exchange rates may be different from the Group's estimate.

29 Financial risk management and fair values *(Continued)*

(e) Fair value measurement

Financial instruments 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

The Group has a team headed by the finance manager performing valuations for the financial instruments, including unlisted equity securities. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.

	Fair value at 31 December 2018	**Fair value measurements as at 31 December 2018 categorised into**		Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into	
		Level 2	**Level 3**		Level 2	Level 3
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Recurring fair value measurements						
Financial assets measured at FVPL	**27,010**	**25,210**	**1,800**	–	–	–

During the years ended 31 December 2017 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.

29 Financial risk management and fair values *(Continued)*

(e) Fair value measurement *(Continued)*

Valuation techniques and inputs used in Level 2 fair value measurements

The fair values was determined with reference to the quoted price provided by brokers/financial institutions.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Weighted average
Financial assets measured at FVPL	Discounted Cashflow ("DCF") model & Default model	Discount rate & recovery rate	85.72% & 16.57%

The fair values of financial assets measured at FVPL are determined basing on the different models regarding the default status. Under the non-default status, the fair value of the financial assets measured at FVPL is determined by DCF model. The discount rate is estimated as risk-free rate plus credit spread derived from the default probability of estimated rating. Under default status, the fair value of the financial assets measured at FVPL is determined as the recovery amount, where the recovery rate is derived from the default bonds in China market as an average recovery rate in industry.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	Note	**2018 RMB'000**	2017 RMB'000
Financial assets measured at FVPL:			
At 1 January		**–**	–
Acquisition of business	*5*	**49,182**	–
Proceeds from sales of financial assets measured at FVPL		**(19,154)**	–
Net realised and unrealised loss on financial assets measured at FVPL		**(3,018)**	–
At 31 December		**27,010**	–

30 Material related party transactions and balances

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8, is as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and other emoluments	**119,824**	84,038
Retirement plan contributions	**313**	201
	120,137	84,239

(b) Material related party transactions

	2018 **RMB'000**	2017 RMB'000
Rental charged to related parties	**100,000**	100,000
Prepayment of rental expenses to related parties	**(90,520)**	(39,142)
Advances from a director	**–**	1,445,026
Repayment to related parties	**–**	(1,487,800)
Deposits for Dili Fresh Acquisition *(i)*	**400,000**	–

(i) On 11 September 2018, Harbin Dili Agricultural Produce and Side Products Co., Ltd.* (哈爾濱地利農副產品有限公司) (the "Purchaser"), a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding (the "MOU") under which Mr. Dai Yongge, currently a controlling shareholder of the Company, proposed to sell or procure to sell and the Purchaser proposed to acquire the equity interest of the Harbin Dili Fresh Agricultural Produce Enterprise Management Company Limited* (哈爾濱地利生鮮農產品企業管理有限公司) (the "Target Company"), which is principally engaged in agricultural produce wholesale and retail operations across China (the "Dili Fresh Acquisition").

In consideration for the exclusivity period (a 180-day period after the date of execution of the MOU or such other date as agreed between the parties to the MOU) (the "Exclusivity Period") to conduct due diligence and negotiations of the definitive and formal binding agreement, the Group paid Mr. Dai Yongge and the Target Company, an aggregate sum of RMB400 million (equivalent to approximately HKD458 million) as deposit in accordance with the terms and conditions of the MOU. At 31 December 2018, the Group has paid RMB50 million and RMB350 million to Mr. Dai Yongge and the Target Company, respectively. On 7 March 2019, Mr. Dai Yongge, the Target Company and the Purchaser entered into a supplemental agreement to the MOU, pursuant to which the Exclusivity Period was extended for another 180 days after the expiry of the original exclusivity period as defined in the MOU (or such other date which the parties may agree in writing).

* *For identification purpose only*

30 Material related party transactions and balances *(Continued)*

(c) Related party balances

	Note	2018 RMB'000	2017 RMB'000
Amounts due to related parties			
— Mr. Dai Yongge*		(7,657)	(881)
— Entities under control of Ms. Zhang Xingmei**		(3,235)	(2,879)
	22	(10,892)	(3,760)
Amounts due from related parties			
— Mr. Dai Yongge*	30(b)(i)	50,048	48
— Entities under control of Ms. Zhang Xingmei**		–	9,142
— Harbin Dili Fresh Agricultural Produce Enterprise Management Company Limited	30(b)(i)	350,000	–
	19	400,048	9,190
		389,156	5,430

* Mr. Dai Yongge, a director and the chairman of the Company, resigned in September 2018.

** Ms. Zhang Xingmei, a non-executive director of the Company and the spouse of Mr. Dai Yongge, resigned in December 2018.

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the acquisition occurred in July 2015 and rental expenses charged to a related party, constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, of which the disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Reports of the Directors. Except for these transactions, other related party transactions mentioned in Note 30(b) are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

31 Company-level statement of financial position

	Note	2018 RMB'000	2017 RMB'000
Non-current asset			
Interests in subsidiaries	*16*	**13,907,859**	12,061,367
Total non-current asset		**13,907,859**	12,061,367
Current assets			
Trade and other receivables		**2,662**	1,049
Cash at bank and on hand		**486,743**	301,051
Total current assets		**489,405**	302,100
Current liabilities			
Amounts due to related parties		**1,458,811**	1,391,732
Trade and other payables		**17,429**	338
Total current liabilities		**1,476,240**	1,392,070
Net current liabilities		**(986,835)**	(1,089,970)
Net assets		**12,921,024**	10,971,397
Capital and reserves			
Share capital	*25(c)*	**478,794**	366,604
Reserves	*25(d)*	**12,442,230**	10,604,793
Total equity		**12,921,024**	10,971,397

Approved and authorised for issue by the board of directors on 28 March 2019.

Wang Yan
Chairman

Dai Bin
Director

32 Comparative figures

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

33 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the accounting period beginning on 1 January 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

33 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 *(Continued)*

IFRS 16, *Leases*

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 27(b), at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounts to RMB 2,563,555,000.

34 Ultimate holding company

The directors of the Company consider the ultimate holding company of the Company at 31 December 2018 to be Shining Hill Investments Limited, which is incorporated in the BVI. This entity does not produce financial statements available for public use.

35 Accounting judgement and estimates

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

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 conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' creditworthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment losses of non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Taxes

The Company and its subsidiaries file taxes in many tax authorities. Judgement is required in determining the amount of tax provisions. There are many transactions and calculating for which the ultimate tax determination is uncertain during the course of business. The ultimate tax determination therefore might be different from the amount of tax provisions made in the financial statements.

Five Years Financial Summary

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000 (Re-presented)	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
RESULTS					
Revenue	555,357	386,640	1,001,765	988,112	**1,128,654**
Cost of sales	(11,825)	–	–	–	**–**
Gross profit	543,532	386,640	1,001,765	988,112	**1,128,654**
Net valuation (loss) gain on investment properties	(1,364,462)	–	–	–	**13,500**
Profit on disposal of investment properties	7,736	–	–	–	**–**
Other income	104,659	44,461	127,409	93,495	**(59,435)**
Administrative expenses	(409,490)	(412,036)	(490,488)	(536,524)	**(703,134)**
Goodwill impairment losses	–	(1,132,950)	–	–	**–**
Other operating expenses	(339,600)	(240,435)	(591,135)	(604,265)	**(691,339)**
(Loss)/profit from operations	(1,457,625)	(1,354,320)	47,551	(59,182)	**(311,754)**
Finance income	123,174	19,822	7,124	28,490	**74,319**
Finance expenses	(541,490)	(2,190)	(26,126)	(2,394)	**(17,490)**
Net finance income/(expenses)	(418,316)	17,632	(19,002)	26,096	**56,829**
(Loss)/profit before income tax	(1,875,941)	(1,336,688)	28,549	(33,086)	**(254,925)**
Income tax	161,398	(35,677)	(116,827)	(93,964)	**(93,676)**
Loss from discontinued operation, net of tax	–	(3,164,388)	(14,513,350)	–	**–**
(Loss)/profit for the year	(1,714,543)	(4,536,753)	(14,601,628)	(127,050)	**(348,601)**

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	37,308,646	38,235,946	10,490,669	8,808,396	**11,589,305**
Total liabilities	(18,740,302)	(16,601,714)	3,525,483	1,871,518	**3,075,758**
Total equity	18,568,344	21,634,232	6,965,186	6,936,878	**8,513,547**
Total equity attributable to equity shareholders of the Company	18,428,464	21,595,422	6,965,186	6,936,878	**8,401,717**
Non-controlling interests	139,880	38,810	–	–	**111,830**
	18,568,344	21,634,232	6,965,186	6,936,878	**8,513,547**

RENHE

Renhe Commercial Holdings Company Limited