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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2098)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of Zall Smart Commerce Group Ltd. (the "**Company**" or "**Zall Smart**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019, together with comparative figures for the preceding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	***RMB'000***	*RMB'000*
Revenue	*3(a)*	**34,722,958**	18,494,611
Cost of sales		**(34,096,482)**	(17,924,179)
Gross profit		**626,476**	570,432
Other net (loss)/income	*4*	**(808,439)**	297,043
Selling and distribution expenses		**(102,936)**	(91,352)
Administrative and other expenses		**(332,276)**	(321,319)
Impairment loss on trade and other receivables		**(73,580)**	(36,190)
(Loss)/profit from operations before changes in fair value of investment properties		**(690,755)**	418,614
Net valuation gain on investment properties	*8*	**1,967,478**	1,471,596

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	***RMB'000***	*RMB'000*
Profit from operations		**1,276,723**	1,890,210
Finance income	*5(a)*	**82,968**	83,293
Finance costs	*5(a)*	**(466,510)**	(320,938)
Share of net losses of associates		**(59,127)**	(26,264)
Share of net profits/(losses) of joint ventures		**94**	(2,800)
Profit before taxation	*5*	**834,148**	1,623,501
Income tax	*6*	**(521,946)**	(412,017)
Profit for the period		**312,202**	1,211,484
Attributable to:			
Equity shareholders of the Company		**340,528**	1,236,122
Non-controlling interests		**(28,326)**	(24,638)
Profit for the period		**312,202**	1,211,484
Earnings per share (RMB cents)			
Basic	*7(a)*	**2.91**	10.63
Diluted	*7(b)*	**2.91**	10.63

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
Profit for the period	**312,202**	1,211,484
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	–	(1,123)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of operations outside Mainland China	**(5,888)**	(30,926)
Other comprehensive income for the period	**(5,888)**	(32,049)
Total comprehensive income for the period	**306,314**	1,179,435
Attributable to:		
Equity shareholders of the Company	**334,583**	1,206,455
Non-controlling interests	**(28,269)**	(27,020)
Total comprehensive income for the period	**306,314**	1,179,435

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2019 *RMB'000*	At 31 December 2018 *(Note)* *RMB'000*
Non-current assets			
Investment properties	*8*	**28,113,840**	25,456,399
Property, plant and equipment	*9*	**337,726**	314,300
Intangible assets		**747,398**	755,305
Goodwill		**1,263,446**	1,252,042
Interests in associates		**413,364**	467,588
Interests in joint ventures		**26,768**	25,519
Equity investments of fair value through other comprehensive income		**8,702**	8,702
Contract assets		**334,318**	329,876
Deferred tax assets		**108,279**	211,047
Other non-current assets		**16,206**	–
		31,370,047	28,820,778
Current assets			
Financial assets at fair value through profit or loss		**4,022,118**	4,785,355
Inventories and other contract costs		**6,006,723**	6,277,105
Prepaid taxes		**16,464**	12,017
Trade and other receivables	*10*	**10,259,090**	8,604,425
Amounts due from related parties		**171,678**	193,293
Fixed deposits with banks with original maturity over three months		**329**	203,287
Pledged bank deposits		**3,167,419**	3,066,232
Cash and cash equivalents		**1,313,009**	1,118,626
		24,956,830	24,260,340

	Note	**At 30 June 2019** *RMB'000*	At 31 December 2018 *(Note)* *RMB'000*
Current liabilities			
Financial liabilities at fair value through profit or loss		**148,796**	142,327
Trade and other payables	*11*	**12,518,223**	11,006,540
Contract liabilities		**2,172,753**	1,835,718
Lease liabilities	*2(d)*	**13,899**	–
Amounts due to related parties		**629,502**	956,391
Interest-bearing borrowings		**8,672,063**	9,255,114
Current taxation		**502,190**	452,480
Deferred income		**5,716**	5,993
		24,663,142	23,654,563
Net current assets		**293,688**	605,777
Total assets less current liabilities		**31,663,735**	29,426,555
Non-current liabilities			
Interest-bearing borrowings		**6,456,680**	4,970,830
Deferred income		**1,053**	2,879
Lease liabilities	*2(d)*	**16,848**	–
Financial liabilities at fair value through profit or loss		**69,709**	59,024
Deferred tax liabilities		**5,138,403**	4,785,009
		11,682,693	9,817,742
NET ASSETS		**19,981,042**	19,608,813
CAPITAL AND RESERVES			
Share capital	*12*	**32,733**	32,437
Reserves		**19,263,508**	18,747,155
Total equity attributable to equity shareholders of the Company		**19,296,241**	18,779,592
Non-controlling interests		**684,801**	829,221
TOTAL EQUITY		**19,981,042**	19,608,813

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 30 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Zall Smart Commerce Group Ltd. (the "Company") and its subsidiaries (together referred to as the "Group") since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2019.

The interim financial report is unaudited and has not been reviewed by the auditors, but has been reviewed by the audit committee of the Company (the "Audit Committee").

2 Changes in accounting policies

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

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

IFRS 16, *Leases*

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

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

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

(a) Changes in the accounting policies

(i) New definition of a lease

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

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 9.

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

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment properties are carried at fair value;

– right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

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

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

(iii) Leasehold investment property

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

(iv) Lessor accounting

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

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

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

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

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

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

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

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

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019
	RMB'000
Operating lease commitments at 31 December 2018	35,745
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(4,178)
Less: total future interest expenses	(1,909)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and total lease liabilities recognised at 1 January 2019	29,658

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

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

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

	Carrying amount at 31 December 2018 *RMB'000*	**Capitalisation of operating lease contracts** *RMB'000*	**Carrying amount at 1 January 2019** *RMB'000*
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	314,300	29,790	344,090
Total non-current assets	28,820,778	29,790	28,850,568
Trade and other receivables	8,604,425	(379)	8,604,046
Total current assets	24,260,340	(379)	24,259,961
Trade and other payables	11,006,540	(247)	11,006,293
Lease liabilities (current)	–	12,121	12,121
Current liabilities	23,654,563	11,874	23,666,437
Net current assets	605,777	(12,253)	593,524
Total assets less current liabilities	29,426,555	17,537	29,444,092
Lease liabilities (non-current)	–	17,537	17,537
Total non-current liabilities	9,817,742	17,537	9,835,279
Net assets	19,608,813	–	19,608,813

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 *RMB'000*	**At 1 January 2019** *RMB'000*
Included in "Property, plant and equipment":		
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost	253,144	272,095
Other properties leased for own use, carried at depreciated cost	34,217	29,790
Included in "Investment properties":		
Ownership interests in leasehold investment properties, carried at fair value	28,113,840	25,456,399
Included in "Inventories and other contract costs":		
Completed properties held for sale	1,144,373	1,700,152
Properties under development for sale	1,287,080	1,290,297

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments *RMB'000*	**Total minimum lease payments** *RMB'000*	**Present value of the minimum lease payments** *RMB'000*	**Total minimum lease payments** *RMB'000*
Within 1 year	13,899	14,260	12,121	12,130
After 1 year but within 2 years	9,531	10,278	10,978	11,835
After 2 years but within 5 years	7,317	8,358	6,559	7,602
	16,848	18,636	17,537	19,437
	30,747	32,896	29,658	31,567
Less: total future interest expenses		(2,149)		(1,909)
Present value of lease liabilities		**30,747**		**29,658**

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

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

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16	**Add back: IFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating lease as if under IAS 17 (Note 1)**	**Hypothetical amounts for 2019 as if under IAS 17**	Compared to amounts reported for 2018 under IAS 17
	(A)	**(B)**	**(C)**	**(D=A+B-C)**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*
Financial results for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**1,276,723**	**6,410**	**6,281**	**1,276,852**	1,890,210
Finance costs	**(466,510)**	**345**	**–**	**(466,165)**	(320,938)
Profit before taxation	**834,148**	**6,755**	**6,281**	**834,622**	1,623,501
Profit for the period	**312,202**	**6,755**	**6,281**	**312,676**	1,211,484
Reportable segment profit/(loss) for the six months ended 30 June 2019 (note 3(b)) impacted by the adoption of IFRS 16:					
– Property development and related services	**191,035**	**143**	**115**	**191,063**	244,915
– E-commerce and financial services	**(10,996)**	**–**	**–**	**(10,996)**	(36,089)
– Supply chain management and trading	**(36,051)**	**5,973**	**5,898**	**(35,976)**	(8,889)
Total	**143,988**	**6,116**	**6,013**	**144,091**	199,937

	2019 Amounts reported under IFRS 16 (A) *RMB'000*	2019 Estimated amounts related to operating leases as if under IAS 17 (Note 1 & 2) (B) *RMB'000*	2019 Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) *RMB'000*	2018 Compared to amounts reported for 2018 under IAS 17 *RMB'000*
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	58,240	(10,111)	48,129	592,146
Net cash generated from operating activities	37,676	(10,111)	27,565	565,600
Capital element of lease rentals paid	(9,766)	9,766	–	–
Interest element of lease rentals paid	(345)	345	–	–
Net cash used in financing activities	(66,034)	10,111	(55,923)	(856,232)

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

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

3 Revenue and segment reporting

(a) Revenue

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

(i) Disaggregation of revenue

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Revenue from sales of properties and related services	**89,010**	114,991
– Revenue from supply chain management and trading business	**34,077,554**	17,843,672
– Revenue from E-commerce and financial services business	**43,103**	25,048
– Revenue from construction contracts	**2,118**	2,054
– Others	**1,400**	19,494
	34,213,185	18,005,259
Revenue from other sources		
Gross rentals from investment properties	**412,106**	352,398
Financing income	**97,667**	136,954
	34,722,958	18,494,611

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

The Group's customer base is diversified and the Group does not have any single customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2019 (six months ended 30 June 2018: one).

The Group's operations are not subject to seasonality fluctuations.

(b) Segment reporting

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

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

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

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

(i) Segment results, assets and liabilities

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

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

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

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

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

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 is set out below.

	Property development and related services		**E-commerce and financial services**		**Supply chain management and trading**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
		(Note)		*(Note)*		*(Note)*		*(Note)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
For the six months ended 30 June								
Disaggregated by timing of revenue recognition								
Point in time	**59,713**	75,035	**43,103**	25,048	**34,077,554**	17,843,672	**34,180,370**	17,943,755
Overtime	**443,521**	394,145	**21,793**	22,630	**75,874**	114,324	**541,188**	531,099
Revenue from external customers and reportable segment revenue	**503,234**	469,180	**64,896**	47,678	**34,153,428**	17,957,996	**34,721,558**	18,474,854
Reportable segment profit/(loss)	**191,035**	244,915	**(10,996)**	(36,089)	**(36,051)**	(8,889)	**143,988**	199,937
Net valuation gain on investment properties	**1,967,478**	1,471,596	**–**	–	**–**	–	**1,967,478**	1,471,596
Finance income	**548**	57,024	**103**	194	**82,316**	26,074	**82,967**	83,292
Finance costs	**(218,329)**	(152,442)	**(3,757)**	(4,436)	**(244,146)**	(122,389)	**(466,232)**	(279,267)
Depreciation and amortisation	**(7,261)**	(12,722)	**(1,114)**	(663)	**(42,435)**	(30,310)	**(50,810)**	(43,695)
Share of net losses of associates	**–**	(168)	**(57,980)**	(21,815)	**(1,147)**	(4,281)	**(59,127)**	(26,264)
Share of net profits/(losses) of joint ventures	**–**	(1,305)	**–**	–	**94**	(1,495)	**94**	(2,800)
Additions to non-current segment assets	**1,388**	2,553	**11,898**	481	**24,130**	165,141	**37,416**	168,175
As at 30 June/31 December								
Reportable segment assets	**36,838,566**	32,240,057	**609,719**	630,189	**11,913,445**	10,549,379	**49,356,491**	43,419,625
Reportable segment liabilities	**14,307,570**	11,872,360	**2,173,332**	2,177,283	**15,827,102**	14,050,893	**32,302,765**	28,100,536

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

(ii) Reconciliations of reportable segment revenue and profit or loss

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**34,721,558**	18,474,854
Other revenue	**1,400**	19,757
Consolidated revenue *(note 3(a))*	**34,722,958**	18,494,611
Profit		
Reportable segment profit	**143,988**	199,937
Other net (loss)/income	**(808,439)**	297,043
Net valuation gain on investment properties	**1,967,478**	1,471,596
Finance income	**82,968**	83,293
Finance costs	**(466,510)**	(320,938)
Share of net losses of associates	**(59,127)**	(26,264)
Share of net profits/(losses) of joint ventures	**94**	(2,800)
Unallocated head office and corporate expenses	**(26,304)**	(78,366)
Consolidated profit before taxation	**834,148**	1,623,501

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

(iii) Geographic information

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

	Revenue from external customers		**Specified non-current assets**	
	Six months ended 30 June 2019	Six months ended 30 June 2018	**30 June 2019**	31 December 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC	**34,000,870**	18,494,611	**30,895,384**	28,268,170
Singapore	**722,088**	–	**7,158**	2,983
	34,722,958	18,494,611	**30,902,542**	28,271,153

The analysis above includes property rental income from external customers in Mainland China for the six months ended 30 June 2019 of RMB412,106,000 (six months ended 30 June 2018: RMB352,398,000).

4 Other net (loss)/income

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
Net fair value changes on financial instruments at fair value through profit or loss		
– listed equity securities	**(697,900)**	182,187
– derivative financial instrument	**–**	(608)
– wealth management products and trust products	**112,058**	42,618
– contingent consideration	**(218,409)**	45,885
– convertible redeemable preference shares of a subsidiary	**(10,442)**	(255)
Dividend received from financial assets at fair value through profit or loss	**–**	10,711
Government subsidies	**3,482**	23,430
Others	**2,772**	(6,925)
	(808,439)	297,043

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

5 Profit before taxation

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

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
(a) Finance (income)/costs		
Finance income		
Interest income	**(82,968)**	(83,293)
Finance costs		
Interest on interest-bearing borrowings	**580,079**	522,509
Interest on lease liabilities	**345**	–
Other borrowing costs	**4,074**	52,207
Less: Amounts capitalised into properties under development and investment properties under development	**(137,428)**	(264,646)
	447,070	310,070
Bank charge and others	**19,088**	10,808
Net foreign exchange loss	**352**	60
	466,510	320,938
(b) Staff costs		
Salaries, wages and other benefits	**131,809**	100,276
Contributions to defined contribution retirement plans	**20,610**	14,818
Equity settled share-based payment expenses	**21,442**	43,351
	173,861	158,445
(c) Other items		
Amortisation	**28,669**	29,703
Depreciation		
– owned property, plant and equipment	**16,224**	14,883
– right-of-use assets	**6,410**	–
Impairment losses		
– trade debtors and bills receivables	**77,373**	34,120
– loans and factoring receivables	**(3,793)**	2,070
Operating lease charges	**8,704**	18,447
Cost of construction contract	**2,118**	2,054
Cost of commodities sold	**33,874,833**	17,763,596
Cost of properties sold	**79,715**	52,430

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

6 Income tax

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax		
PRC Corporate Income Tax ("PRC CIT")	**60,514**	61,334
PRC Land Appreciation Tax ("PRC LAT")	**5,270**	5,568
	65,784	66,902
Deferred tax		
Origination and reversal of temporary differences	**456,162**	345,115
	521,946	412,017

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

(ii) No provision for Hong Kong Profits Tax or Singapore Corporate Income Tax as the Group did not earn any assessable income subject to Hong Kong Profits Tax or Singapore Corporate Income Tax during the six months ended 30 June 2019 and 2018.

(iii) Pursuant to the rules and regulations applicable to encouraged industries in the PRC western development strategy, one subsidiary of the Group, GSMN Logistics Co., Ltd., is subject to PRC CIT at a preferential tax rate of 15% for the six months ended 30 June 2019, and one subsidiary of the Group, Guangxi Sugar Market Network Co., Ltd., is subject to PRC CIT at a preferential tax rate of 9% for the six months ended 30 June 2019. Pursuant to the rules and regulations applicable to advanced technology enterprises of the PRC, two subsidiaries of the Group, Shenzhen AP88.com Agriculture Information Technology Limited and Zallsoon Information Technology (Wuhan) Co., Ltd. ("**Zallsoon**"), are subject to PRC CIT at a preferential tax rate of 15% for the six months ended 30 June 2019. The application of preferential tax rate will be reviewed by the tax authority annually.

All the other PRC subsidiaries of the Group are subject to income tax at 25% for the six months ended 30 June 2019 under the PRC Corporate Income Tax Law which was enacted on 16 March 2007.

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

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

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

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

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

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB339,206,000 (adjusted for ordinary shares issued for Management Share Award Scheme, Incentive Shares and VKC Consultancy Service Consideration Shares) (six months ended 30 June 2018: RMB1,235,106,000) and the weighted average of 11,648,234,000 ordinary shares (adjusted for ordinary shares issued for Management Shares Award Schame, Incentive Shares and VKC Consultancy Service Consideration Shares) (six months ended 30 June 2018: 11,621,809,000) in issue during the six months ended 30 June 2019.

(b) Diluted earnings per share

The effect of the Company's share option and various incentive plans was anti-dilutive for the six months ended 30 June 2019.

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB1,235,782,000 (adjusted for ordinary shares issued for Incentive Shares and VKC Consultancy Service Consideration Shares) and the weighted average of 11,630,786,000 ordinary shares (adjusted for ordinary shares issued for Incentive Shares and VKC Consultancy Service Consideration Shares) in issue during the six months ended 30 June 2018.

8 Investment properties

During the six months ended 30 June 2019, the Group transferred certain completed properties held for sale to investment properties since there was a change in use from sale to earning rental income purpose.

The Group's investment properties carried at fair value were revalued as at 30 June 2019 by Jones Lang Lasalle Corporate Appraisal and Advisory Limited, an independent firm of surveyors, using the same valuation techniques as were used by this valuer when arranging out the December 2018 valuations.

As a result of the update, a net fair value gain of RMB1,967,478,000 (six months ended 30 June 2018: RMB1,471,596,000), and deferred tax thereon of RMB491,870,000 (six months ended 30 June 2018: RMB367,899,000), has been recognised in profit or loss in respect of investment properties.

As at 30 June 2019, the Group's investment properties and investment properties under development with an aggregated carrying value of RMB23,441,533,000 (31 December 2018: RMB18,991,425,000) were pledged as collateral for the Group's bank loans.

9 Property, plant and equipment

As discussed in note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of office premises and warehouses, and therefore recognised the additions to right-of-use assets of RMB10,855,000.

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with aggregate costs of RMB7,634,000 (six months ended 30 June 2018: RMB5,208,000), of which aggregate costs of RMB1,052,000 was from business combination.

Items of property, plant and equipment with net book value of RMB1,924,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB64,000), resulting in a loss on disposal of RMB389,000 (six months ended 30 June 2018: RMB30,000).

As at 30 June 2019, the ownership certificates for certain buildings with net book value of RMB16,369,000 have not been obtained (31 December 2018: RMB16,449,000).

As at 30 June 2019, the Group's buildings with carrying value of RMB47,859,000 (31 December 2018: RMB248,394,000) were pledged as collateral for the Group's bank loans.

10 Trade and other receivables

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade debtors and bills receivables, net of loss allowance	**4,588,690**	2,874,048
Loans and factoring receivables, net of loss allowance	**2,248,735**	3,347,928
	6,837,425	6,221,976
Advances to suppliers	**1,530,528**	873,441
Other receivables, deposits and prepayments	**1,891,137**	1,509,008
	10,259,090	8,604,425

As at 30 June 2019, certain bills receivables with carrying value of RMB1,641,276,000 (31 December 2018: RMB932,614,000) were pledged as collateral for the Group's interest-bearing borrowings.

(a) Ageing analysis of trade debtors and bill receivables

As at the end of the reporting period, the ageing analysis of trade debtors and bill receivables based on revenue recognition date and net of allowance for impairment losses, is as follows::

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Within 6 months	**3,156,719**	2,085,881
6 to 12 months	**959,528**	353,362
Over 12 months	**472,443**	434,805
	4,588,690	2,874,048

Customers are normally granted credit terms of 0 to 360 days, depending on the credit worthiness of individual customers.

(b) Loans and factoring receivables, net of loss allowance

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Guaranteed loans receivable, net of loss allowance	**40,914**	39,424
Secured loans receivable, net of loss allowance (i)	**1,751,007**	2,162,005
Unsecured loans receivable, net of loss allowance	**30,941**	740,474
Factoring receivables, net of loss allowance	**425,873**	406,025
	2,248,735	3,347,928

(i) Secured loans receivables represent secured loans advanced to third-party borrowers secured by the borrowers' inventories, properties or unlisted shares.

Ageing analysis

As at the end of the reporting period, the ageing analysis of loans and factoring receivables based on recognition date of loans and factoring receivables and net of allowance for doubtful debts, is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Within 6 months	**601,213**	2,364,086
6 to 12 months	**858,510**	489,973
Over 12 months	**789,012**	493,869
	2,248,735	3,347,928

Borrowers are normally granted credit terms of 180 to 360 days, depending on the credit worthiness of individual customers.

11 Trade and other payables

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Trade and bills payables (i)	**8,952,573**	8,143,449
Other borrowings (i)(ii)	**1,092**	135,110
Receipts in advance	**265,284**	294,356
Other payables and accruals	**3,299,274**	2,433,625
	12,518,223	11,006,540

(i) As of the end of the reporting period, the ageing analysis of trade and bills payables and other borrowings, based on the invoice date, is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
Within 6 months	**5,908,641**	4,140,186
6 to 12 months	**2,745,051**	2,386,941
Over 12 months	**299,973**	1,751,432
	8,953,665	8,278,559

(ii) Other borrowings mainly represented amounts generated from financial lending business. The interest rate of the other borrowings are ranging from 6.9%-9.3% for six months ended 30 June 2019 (six months ended 30 June 2018: 8.45%-11%).

(iii) Bills payables of the Group were secured by certain pledged bank deposits and wealth management products and trust products of the Group as at 30 June 2019 and 31 December 2018.

12 Capital, reserves and dividends

(a) Share capital

On 10 June 2019, 101,094,000 ordinary shares were issued for acquisition of 9.89% equity interest of Shenzhen Sinoagri E-commerce Co., Ltd. ("**Shenzhen Sinoagri**").

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2019 and 2018.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the following interim period, nil (six months ended 30 June 2018: HKD2.58 cents per share)	–	246,653

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concerns so it can continue to provide returns for shareholders and benefits for other stakeholders by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and securities afforded by a sound capital position and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as interest-bearing borrowing and lease liabilities less fixed deposits with banks with original maturity over three months, pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity.

The Group's strategy is to maintain the adjusted net debt-to-capital ratio not exceed 75%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This did not have a significant impact on the Group's adjusted net debt-to-capital ratio rose on 1 January 2019 when compared to its position as at 31 December 2018.

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to IFRS 16 was as follows:

	30 June 2019	**1 January 2019** *(Note)*	31 December 2018 *(Note)*
	RMB'000	***RMB'000***	*RMB'000*
Current liabilities:			
Interest-bearing borrowings	**8,672,063**	**9,255,114**	9,255,114
Lease liabilities	**13,899**	**12,121**	–
Non-current liabilities:			
Interest-bearing borrowings	**6,456,680**	**4,970,830**	4,970,830
Lease liabilities	**16,848**	**17,537**	–
Total debt	**15,159,490**	**14,255,602**	14,225,944
Less: Fixed deposits with banks with original maturity over three months	**329**	**203,287**	203,287
Pledged bank deposits	**3,167,419**	**3,066,232**	3,066,232
Cash and cash equivalents	**1,313,009**	**1,118,626**	1,118,626
Adjusted net debt	**10,678,733**	**9,867,457**	9,837,799
Total equity attributable to equity shareholders of the Company	**19,296,241**	**18,779,592**	18,779,592
Adjusted net debt-to-capital ratio	**55.34%**	**52.54%**	52.39%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2.

13 Non-adjusting events after the reporting period

(a) Disposal of Zalljinfu Information Technology (Wuhan) Co., Ltd. ("**Zalljinfu Information Technology**") and 35% equity interest of Zhong Bang Financial Leasing Co., Ltd. ("**Zhong Bang Financial Leasing**")

On 30 June 2019, the Group entered into two disposal agreements with Zhong Bang Asset Management Co., Ltd. ("**Zhong Bang Asset Management**", a connected person of the Company which is controlled by controlling shareholder of the Company) in relation to disposal total equity interest of Zalljinfu Information Technology and 35% equity interest of Zhong Bang Financial Leasing at a consideration of RMB21,000,000 and RMB44,000,000, respectively. Zalljinfu Information Technology owned 65% equity interest of Zhong Bang Financial Leasing. Together with its subsidiaries including Zhong Bang Financial Leasing, Zalljinfu Information Technology is principally engaged in asset management, insurance agent and related consulting business and guarantee business and the provision of finance leasing service. Upon completion of the disposal, Zalljinfu Information Technology and Zhong Bang Financial Leasing will be ceased to the subsidiaries of the Group and the financial results will no longer be consolidated into the financial statements of the Group.

The disposal of total equity interest of Zalljinfu Information Technology was completed in July and the disposal of 35% equity interest of Zhong Bang Financial Leasing is expected to be completed in the second half of 2019.

(b) Disposal of Wuhan Hankoubei Guarantee Investment Company Limited ("**Wuhan Guarantee Investment**")

On 2 August 2019, the Group entered into a disposal agreement with Zhong Bang Asset Management, pursuant to which the Group agreed to dispose total equity interest of Wuhan Guarantee Investment at a consideration of RMB198,000,000. The principal business of Wuhan Guarantee Investment is provision of guarantee services. Upon completion of the disposal, Wuhan Guarantee Investment will be ceased to the subsidiary of the Group and the financial results will no longer be consolidated into the financial statements of the Group.

14 Comparative figures

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Consumer product-focused wholesale trading

The Group's heavily invested core project, the North Hankou International Trade Center, has now formed 30 large specialized market clusters covering footwear and leatherware, branded clothing, hotel supplies, small merchandises, bedding, automobile and second-handed vehicles, hardware and electrical products, etc., with merchants reaching 32,000 operating stably. The total developed and developing area of market clusters exceeded 6.8 million square meters. The transaction amount achieved in the first half of 2019 was RMB38.0 billion. It was honoured as "National Trading Market System-Demonstration Market on Transformation, Upgrade, Innovation and Development for 2018" and "The Most Influential Brand Market in China over the Past 40 Years of Reform and Opening-Up".

In the first half of 2019, 172,600 square meters were added to the area for investment in the North Hankou International Trade Center, with the Branded Clothing City (品牌服裝城) striving to provide new retail model and O2O consumer experience area for boutique clothing and accessories; the Big World of Flowers, Birds, Fish and Pets (花鳥魚寵大世界) fully assuming the relocation and transfer of old markets and establishing itself as an one-stop pet shopping center in Central China; and the National Hotel Supplies Trading Center (全國酒店用品貿易中心) integrating supply chain resources to form a marketing platform for resources of the industry covering the whole country. At the same time, the markets organised various activities such as order fairs, internal purchase fairs, procurement days, group buying fair, etc. for a total of 34 times including "Spring Trade Fair" (春季商品交易會), "Ordering Fair for New Footwear" (鞋業新品訂貨會), "Spring Ordering Fair for Curtains" (窗幕春季訂貨會), "Garment Purchasing Day" (服裝掃貨日), "Stationery and Sporting Goods Expo" (文體博覽會), "Dream Car Purchasing Season" (夢想購車季) etc. Corresponding activities were held prior to the activities mentioned above to develop customers in key cities and counties in Central China, release activity information to precise targets and publicize the prosperity and activities of the Center.

In the first half of 2019, the Group continued to strengthen the pilot construction of the national market procurement and trading mode, and comprehensively deepened the development of new foreign trading business to become the only export industrial park in China integrating market procurement, cross-border e-commerce and general trade. In the first half of 2019, total pilot export reached USD390 million, representing an increase of 145% year-on-year. In terms of e-commerce, delivery was completed for warehousing centers of 150,000 square meters and cross-border e-commerce headquarters of 50,000 square meters. In terms of export comprehensive services, 4 overseas warehouses were added; air freight logistics services for Wuhan-Nordic and Wuhan-Chicago was added; and "Development Letter" (開發信) service was launched to help export enterprises contact and develop overseas buyers, so that buyers can directly connect with manufacturers.

Tianjin E-commerce Mall is the Group's flagship project in Northern China. Portions of the commercial, trade and e-commerce zones of Phase I have commenced operation gradually. Against a background of cooperative development in the Beijing-Tianjin-Hebei region and the easing of Beijing's non-capital core function, Tianjin E-commerce Mall reached a strategic cooperation with Beijing Tianya Group (北京天雅集團) and established a joint venture company in May 2019. Both parties will step up cooperation in recruiting merchants and operation, and speed up the taking up of large-scale wholesale markets moving out of Beijing.

Supply chain management and trading

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

Shenzhen Sinoagri, which focuses on vertical segmentation of bulk agricultural products, provides whole supply chain service solutions in the fields of trading, information, settlement, financing and logistics to manufacturers, processing enterprises, suppliers and terminal suppliers both upstream and downstream. In the first half of 2019, Shenzhen Sinoagri engaged in closed-loop of whole industrial chain and extended overseas through actively extending to the upstream and downstream ends of the industrial chain, which effectively connected upstream and downstream customers and helped them to solve "pain points" of the industry, and secured the stability and growth of its own results. As of 30 June 2019, the platform added 4,218 new customers, bringing the number of accumulated registered members to 86,837 and achieving operating revenue of RMB17.94 billion, representing a growth of 37% year-on-year. In addition to traditional products such as sugar, cocoon and silk, Shenzhen Sinoagri joint with quality resources of the industry to develop other types of agricultural products, such as grain, quality food products, hot peppers and coffee and further develop import and export business. Meanwhile, it strengthened the quality enhancement of the infrastructure construction of the underlying services at the logistics side and built a logistics management system based on the application of the Internet of Things and other technologies. The business of its logistics company rose steadily in the first half of 2019. Through the expansion of warehousing, transportation and transportation capacity financial services, it recorded operating revenue of RMB36 million, and developed 80 customers and the 57 cooperative suppliers. The shipment volume was 340,000 tons.

As a chemical e-commerce operator that leads the future, HSH International Inc. ("**HSH**") is committed to promote the infrastructure construction of the "Internet + chemical" and plastics raw materials, opening up the closed loop of transaction of information flow, logistics and capital flow in the entire industrial chain for chemical and plastics raw materials. It aims to construct HSH as a new ecosystem for the entire industrial chain of chemical and plastics raw materials industry through an innovative mode of distributed sharing platform. In the first half of 2019, on the foundation of its self-operated business, HSH further expanded platform business and provided consignment and pre-sale business according to the requirements of upstream resources and downstream customers. It took key commodities as a breakthrough point to develop business and generate revenue. For the first half of 2019, the total revenue amount reached RMB5.46 billion and the number of self-operated orders amounted to 5,904.

Zall Steel E-commerce Co., Ltd. ("**Zall Steel**") mainly provides overall integrated supply chain services and solutions for trading, warehousing and processing, supply chain finance and other services to upstream and downstream supply chain partners in the black commodity sector. Since its establishment on 23 March 2018, Zall Steel has established business partnerships with approximately 8,000 upstream and downstream customers. As of 30 June 2019, it only took six months for Zall Steel to realize operating revenue of RMB9.0 billion. For the second half of the year, Zall Steel will continue to promote offline and online service integration, develop and expand online supply chain services including warehousing, logistics, finance etc. Leveraging on the resources of the Group's ecosphere, Zall Steel will explore new resource channels, focus on customer needs, expand the scope of integrated services and enhance its value creation and influence in the black commodity industry.

The Group's Commodities Intelligence Centre Pte. Ltd. ("**CIC**") provides integrated services covering transaction matching, custom clearing and declaration, supply chain logistics, trade financing, supply chain finance and global compliance regulation in the area of online global commodity trading, as well as provides trade data and trade index services, realizing intelligence of the whole process of commodity trading. As of 30 June 2019, the CIC trading platform recorded accumulative transaction amount of nearly USD5 billion, over 4,000 registered users, which are from China, Singapore, India, Malaysia and various countries in Asia, focusing on transactions of ferrous and non-ferrous metals, chemicals and plastics, agricultural products, oil products etc. In the first half of 2019, the registration of ZMA Smart Capital Pte. Ltd. ("**ZMA**") was completed. ZMA is jointly established by CIC and Marubeni Corporation in Japan, one of the Global 500 enterprises. Based on the blockchain technology of CIC, ZMA will continuously strengthen e-finance services, provide effective risk management, provide new solutions for international e-finance services, reduce costs, broaden channels, enhance trading efficiency and promote development of international trade. In the first half of 2019, CIC made its debut presentation at "the 7th Singapore Iron Ore Week" (第7屆新加坡鐵礦石周), "the Global Trader Dialogue" (環球貿易商會議) organised by Enterprise Singapore, "the Singapore Trade and Connectivity Challenge" (TCC) (新加坡貿易與互聯互通挑戰賽TCC), "11th CWC World LNG & Gas Series: Asia Pacific Summit" (第11屆CWC國際液化天然氣會議亞洲峰會), "First Internet of Logistics (IoL) Summit" (首屆物流互聯網(IoL)峰會) and other major meeting activities. CIC presented its new model of one-stop service transaction to overseas traders through platform-specific trading demonstration, introduction of financial services and discussion of blockchain technology, which has laid a solid foundation for the future expansion of global commodity trade cooperation.

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

Warehousing and logistics services

In respect of warehousing services, in the first half of 2019, Zall Cloud Warehouse has successfully linked with multiple enterprises inside and outside the Group with businesses distributed in over 50 cities such as Shanghai, Guangzhou, Hangzhou and Qingdao. It signed new contracts for 52 regulatory warehouses, bringing the total number to 312 with goods throughput of approximately 6.57 million tons. In respect of the construction of regulatory platform for intelligent cloud warehouse, linkage has been made with the online warehousing system of Zall Steel under the Group, realizing real time data monitoring. In the first half of 2019, Zall Cloud Warehouse focused on the development of integrated services for the overall warehousing and distribution of fast-moving consumer goods, with an actual operating area of 200,000 square meters. Currently, it has reached cooperation intentions with over 30 merchants from industries such as electrical appliances, maternal and child, shoe and clothing and fast-moving consumer goods, providing a new alternative of high quality warehousing service for merchants.

In the future, Zall Cloud Warehouse will utilize five core cities including Wuhan, Guangzhou, Shanghai, Chengdu and Beijing as the base points and actively establish cooperative branch warehouses throughout the country. Through covering major cities across the country by the Zall Cloud Warehouse platform management and alliance, we will build an intelligent warehousing service platform with significant influence in China.

In respect of logistics services, based on the development strategy of "Technology Driven + Supply Chain Driven", Zallsoon, the subsidiary of the Group, made innovation and development in logistics information and supply chain management, and helped the logistics industry to reduce costs and increase efficiency with the help of technology in 2019, in addition to providing enterprise customers with one-stop logistics services such as same city express transportation, long-distance freight transportation, cold chain warehousing and distribution. Zallsoon has so far obtained eight software copyrights and three patent inventions, and was recognised as "National High and New Technology Enterprise" jointly awarded by the Ministry of Science and Technology of Hubei Province, the Bureau of Finance of Hubei Province and the Tax Bureau of Hubei Province of the State Administration of Taxation in March 2019. At present, nearly 110,000 drivers on the Zallsoon logistics system platform, and the accumulated number of orders in aggregate is over 82 million.

FUTURE PROSPECTS

Originated from the offline wholesale market, Zall Smart has undergone four years of Internet transformation with experience in the physical market and new economic operations. The core value of the wholesale market is the level of prosperity in terms of transactions. Online transformation will help the prosperity of the offline market, which in turn will contribute to the flow and scale of the online platform. We will accelerate the integration of online and offline applications, and will bring greater development potential to Zall Smart through the mutual empowerment and joint development of online and offline platforms.

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

INVESTMENT PORTFOLIO

The portfolio of listed equity investments of the Group as at 30 June 2019 and 31 December 2018 were as follows:

As at 30 June 2019

Stock code	Name of investee company	Number of shares held	Effective shareholding interest	Acquisition cost	Carrying amount as at 30 June 2019	Unrealised holding loss arising on revaluation for the six months ended 30 June 2019	Dividend received for the six months ended 30 June 2019
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
00607.HKEX	Fullshare Holdings Limited ("**Fullshare**")	613,880,000	3.11%	**685,837**	**261,903**	**(697,900)**	–

As at 31 December 2018

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

As at 30 June 2019, the Group held approximately 613,880,000 (31 December 2018: 613,880,000) shares in Fullshare, representing approximately 3.11% of its entire issued share capital (31 December 2018: 3.11%). Fullshare is listed on the main board of the Hong Kong Stock Exchange. Its principle activities are property development, tourism, investment, provision of healthcare products and services business and new energy business. The Group recognised an unrealised holding loss of approximately RMB697.9 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: unrealised holding gain of RMB182.2 million). The carrying amount of investment in Fullshare accounts for approximately 0.46% of the Group's total assets as at 30 June 2019 (31 December 2018: 1.82%). The Group would like to emphasize that the unrealised holding loss is non-cash in nature and relates to the change in fair value of the Group's investment in Fullshare that are volatile in nature. The Group will closely monitor the performance of its investment and adjust its investment plan and portfolio when necessary.

RESULTS OF OPERATION

Operating revenue

	Six months ended 30 June	
	2019	**2018**
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Revenue from sales of properties and related services	**89,010**	114,991
– Revenue from supply chain management and trading business	**34,077,554**	17,843,672
– Revenue from E-commerce and financial services business	**43,103**	25,048
– Revenue from construction contracts	**2,118**	2,054
– Others	**1,400**	19,494
	34,213,185	18,005,259
Revenue from other sources		
Gross rentals from investment properties	**412,106**	352,398
Financing income	**97,667**	136,954
	34,722,958	18,494,611

Revenue of the Group increased significantly by approximately 87.7% from RMB18,494.6 million for the six months ended 30 June 2018 to approximately RMB34,723.0 million for the six months ended 30 June 2019. The increase was primarily due to the offsetting effect of (i) the significant increase in revenue from supply chain management and trading business; (ii) the increase in rental income; (iii) the increase in revenue from E-commerce and financial service business; (iv) the decrease in the revenue from sales of properties and related services; and (v) the decrease in revenue from financing income.

Revenue from supply chain management and trading business

The Group's revenue from supply chain management and trading business has contributed approximately 98.1% of the Group's total revenue for the six months ended 30 June 2019. The significant increase in revenue from supply chain management and trading business was primarily attributable to (i) completion of the acquisition of 52.48% equity interest in HSH in March 2018, resulting in the consolidation of the financial results of HSH for the full six months ended 30 June 2019, as compared to the consolidation of the financial results of HSH for only around three months from March 2018 to June 2018 in the financial results of the Group for the six months ended 30 June 2018; (ii) establishment of Zall Steel in March 2018, resulting in the consolidation of the financial results of Zall Steel for the full six months ended 30 June 2019, as compared to the consolidation of the financial results of Zall Steel for only around three months from March 2018 to June 2018 in the financial results of the Group for the six months ended 30 June 2018; and (iii) the significant increase in revenue of Shenzhen Sinoagri for the six months ended 30 June 2019, as compared to those for the six months ended 30 June 2018.

Rental income

The Group's rental income increased by approximately 16.9% from approximately RMB352.4 million for the six months ended 30 June 2018 to approximately RMB412.1 million for the six months ended 30 June 2019. The increase was primarily due to an increase in rental areas in the North Hankou Project.

Financing income

The Group's financing income decreased by 28.7% from RMB137.0 million for for the six months ended 30 June 2018 to RMB97.7 million for the six months ended 30 June 2019. The decrease was mainly due to the decrease in volume of financing activities in the first half of 2019.

Revenue from E-commerce and financial services business

The Group's revenue from e-commerce and financial services business increased by approximately 72.1% from RMB25.0 million for the six months ended 30 June 2018 to RMB43.1 million for the six months ended 30 June 2019. The increase was mainly due to the increase in volume of E-commerce transactions in first half of 2019.

Revenue from construction contracts

The Group's revenue from construction contract to build certain properties on behalf of a third party increased by approximately 3.1% from approximately RMB2.0 million for the six months ended 30 June 2018 to approximately RMB2.1 million for the six months ended 30 June 2019. The revenue was recognised according to the actual cost incurred for the six months ended 30 June 2019. There were no significant fluctuations compared with prior period.

Sale of properties and related services

Revenue from the sale of properties decreased by approximately 22.6% from approximately RMB115.0 million for the six months ended 30 June 2018 to approximately RMB89.0 million for the six months ended 30 June 2019.

The Group's revenue from sales of properties was generated from the sales of industrial plants units, auxiliary facilities units, office and retails units and residential apartments. The decrease in revenue from sales of properties was mainly attributed to the decrease in the gross floor area delivered during the six months ended 30 June 2019.

Cost of sales

Cost of sales of the Group increased significantly by approximately 90.2% from approximately RMB17,924.2 million for the six months ended 30 June 2018 to approximately RMB34,096.5 million for the six months ended 30 June 2019. The increase is primarily due to full six months period impact of HSH and Zall Steel and increase in volume of transactions in Shenzhen Sinoagri, cost of inventories of approximately RMB33,874.8 million from the supply chain management and trading business.

Gross profit

Gross profit of the Group increased by approximately 9.8% from approximately RMB570.4 million for the six months ended 30 June 2018 to approximately RMB626.5 million for the six months ended 30 June 2019. The Group's gross profit margin decreased from 3.1% in first half year of 2018 to 1.8% in first half year of 2019 mainly due to the changes of the revenue portfolio of the Group since the acquisition of the majority equity interest in HSH in March 2018 and establishment of Zall Steel in March 2018. Given the characteristics of initial development of the supply chain management and trading business, it has contributed higher revenue but lower profit margin.

Other net (loss)/income

Other net income of the Group decreased significantly from a net gain of approximately RMB297.0 million for the six months ended 30 June 2018 to a net loss of approximately RMB808.4 million for the six months ended 30 June 2019. The other net loss was mainly due to the loss in the net fair value change on listed equity securities and contingent consideration at fair value through profit or loss amounted to approximately RMB697.9 million and RMB218.4 million respectively for the six months ended 30 June 2019.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately 12.7% from RMB91.4 million for the six months ended 30 June 2018 to approximately RMB102.9 million for the six months ended 30 June 2019. The increase was primarily due to the increase in approximately RMB6.0 million and RMB5.3 million in staff costs and advertising and promotion expenses respectively.

Administrative and other expenses

Administrative and other expenses of the Group increased by approximately 3.4% from RMB321.3 million for the six months ended 30 June 2018 to approximately RMB332.3 million for the six months ended 30 June 2019. The increase was mainly due to the offsetting effect of (i) increase in staff costs of approximately RMB18.1 million; and (ii) decrease in consultancy expenses of approximately RMB6.5 million.

Net valuations gain on investment properties

The Group holds a portion of properties which were developed for rental income and/or capital appreciation purposes. The Group's investment properties are revaluated at the end of the respective review period on an open market value or existing use basis by an independent property valuer. The net valuation gain on investment properties increased approximately by 33.7% from RMB1,471.6 million for the six months ended 30 June 2018 to approximately RMB1,967.5 million for the six months ended 30 June 2019. The increase was primarily due to the increased number of shopping mall units retained for rental purposes as compared to the first half of last year.

Finance income and costs

Finance income of the Group decreased by approximately 0.4% from RMB83.3 million for the six months ended 30 June 2018 to approximately RMB83.0 million for the six months ended 30 June 2019. There were no significant fluctuations compared with prior period.

Finance cost of the Group increased by approximately 45.4% from RMB320.9 million for the six months ended 30 June 2018 to approximately RMB466.5 million for the six months ended 30 June 2019. The increase was mainly attributable to the increase in interest expenses incurred on interest-bearing borrowings and the decrease in amounts capitalised into properties under development and investment properties under development as compared to the first half of last year.

Share of net losses of associates

Share of net losses of associates increased by 125.1% from approximately RMB26.3 million for the six months ended 30 June 2018 to approximately RMB59.1 million for the six months ended 30 June 2019. The increase is mainly due to the increase of loss from material associate LightInTheBox Holding Co., Ltd. comparing to the first half year of 2018.

Share of net profits/(losses) of joint ventures

Share of net losses of joint ventures of the Group changed from net losses of approximately RMB2.8 million for the six months ended 30 June 2018 to net profits of approximately RMB94,000 for the six months ended 30 June 2019. The share of net profits is primarily due to the Group's share of net profits of AP V-Best Supply Chain (Shanghai) Ltd. for the six months ended 30 June 2019.

Income tax

Income tax increased by approximately 26.7% from approximately RMB412.0 million for the six months ended 30 June 2018 to approximately RMB521.9 million for the six months ended 30 June 2019. The increase was mainly due to the increase in deferred tax of approximately RMB124.0 million as a result of the increase of net valuation gain from investment properties for the six months ended 30 June 2019.

Profit for the period

For the six months ended 30 June 2019, the Group recorded a net profit of approximately RMB312.2 million. Profit attributable to equity shareholders of the Company was approximately RMB340.5 million, representing a decrease of approximately 72.5% over the amount of approximately RMB1,236.1 million for the six months ended 30 June 2018.

Liquidity and capital resources

The Group has consistently maintained sufficient working capital. As at 30 June 2019, the Group had net current assets of approximately RMB293.7 million (31 December 2018: approximately RMB605.8 million) and net assets of approximately RMB19,981.0 million (31 December 2018: approximately RMB19,608.8 million). As at 30 June 2019, the Group's equity attributable to equity shareholders of the Company amounted to approximately RMB19,296.2 million (31 December 2018: approximately RMB18,779.6 million), comprising issued capital of approximately RMB32.7 million (31 December 2018: approximately RMB32.4 million) and reserves of approximately RMB19,263.5 million (31 December 2018: approximately RMB18,747.2 million).

Cash position

The Group's cash and cash equivalents consist primarily of cash on hand and bank balances which are primarily held in RMB denominated accounts with banks in the PRC. The Group's cash and cash equivalents increased by approximately 17.4% from approximately RMB1,118.6 million as at 31 December 2018 to approximately RMB1,313.0 million as at 30 June 2019. The increase was mainly attributable to the increased amount of cash and cash equivalents obtained from the interest-bearing borrowings.

Interest-bearing borrowings

The Group's total interest-bearing borrowings increased by approximately 6.3% from approximately RMB14,225.9 million as at 31 December 2018 to approximately RMB15,128.7 million as at 30 June 2019. Majority of the loans were denominated in RMB, being the functional currency of the Group.

Net gearing ratio

The Group's net gearing ratio increased from 52.4% as at 31 December 2018 to 55.3% as at 30 June 2019. The increase in net gearing ratio was mainly due to the increase in total amount of interest-bearing borrowings to strengthen the Group's operating capacity. The net gearing ratio is calculated by dividing interest-bearing borrowings and lease liabilities net of cash and cash equivalents, pledged bank deposits and fixed deposits with banks with original maturity over three months, by total equity attributable to equity shareholders of the Company.

Foreign exchange risk

The Group's sales were primarily denominated in RMB, being the functional currency of the Group's major operating subsidiaries. Accordingly, the Board expects any future exchange rate fluctuation will not have any material effect on the Group's business. As at 30 June 2019, the Group did not use any financial instruments for hedging purpose. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Charge on assets

As at 30 June 2019, the Group had pledged certain of its assets with a total book value of RMB27,403.7 million (31 December 2018: RMB22,832.9 million) and a total book value of RMB6,624.3 million (31 December 2018: RMB6,238.6 million) for the purpose of securing certain of the Group's borrowings and bills payables respectively.

Material acquisitions and disposals of subsidiaries or associated companies

In June 2019, Zalljinfu Corporate Management (Wuhan) Co., Ltd. ("**Zalljinfu Corporate Management**"), being an indirect wholly-owned subsidiary of the Company, and Zhong Bang Asset Management entered into a disposal agreement, pursuant to which Zalljinfu Corporate Management agreed to sell, and Zhong Bang Asset Managemnet agreed to purchase, the entire equity interest in Zalljinfu Information Technology at a total consideration of RMB21,000,000, and Zall Financial Services Group Co., Ltd. ("**Zall Financial Services**"), being an indirect wholly-owned subsidiary of the Company, and Zhong Bang Asset Management entered into a disposal agreement, pursuant to which Zall Financial Services agreed to sell, and Zhong Bang Asset Management agreed to purchase, 35% equity interest in Zhong Bang Financial Leasing at a total consideration of RMB44,000,000. Zalljinfu Information Technology is a company established in the PRC with limited liability and the principal businesses of Zalljinfu Information Technology and its subsidiaries are asset management, consulting business and guarantee business, provision of finance leasing service and etc. Zhong Bang Financial Leasing is a company established in the PRC with limited liability and its principally engages in the provision of finance leasing service. The Group will cease to have any interest in each of the aforementioned companies and the financial results of each of the aforementioned companies will no longer be consolidated into the financial statements of the Group upon completion of the disposals.

Segment reporting

Details of the segment reporting of the Group for the six months ended 30 June 2019 are set out in note 3 of the interim condensed consolidated financial statements.

Contingent liabilities

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

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

As at 30 June 2019, the guarantees in relation to provision of loan guarantee services amounted to RMB288.0 million (31 December 2018: RMB268.1 million) and the guarantees in relation to mortgage facilities granted to purchasers of the Group's properties amounted to RMB749.4 million (31 December 2018: RMB688.8 million).

CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRS, that are first effective for the current accounting period of the Group. For details, please refer to Note 2 to the unaudited condensed consolidated interim results of the Company in this announcement.

EVENT SUBSEQUENT TO END OF REPORTING PERIOD

(a) Disposal of Zalljinfu Information Technology and 35% equity interest of Zhong Bang Financial Leasing

On 30 June 2019, the Group entered into two disposal agreements with Zhong Bang Asset Management, a connected person of the Company which is controlled by controlling shareholder of the Company) in relation to disposal total equity interest of Zalljinfu Information Technology and 35% equity interest of Zhong Bang Financial Leasing at a consideration of RMB21,000,000 and RMB44,000,000, respectively. Zalljinfu Information Technology owned 65% equity interest of Zhong Bang Financial Leasing. Together with its subsidiaries including Zhong Bang Financial Leasing, Zalljinfu Information Technology is principally engaged in asset management, insurance agent and related consulting business and guarantee business and the provision of finance leasing service. Upon completion of the disposal, Zalljinfu Information Technology and Zhong Bang Financial Leasing will be ceased to the subsidiaries of the Group and the financial results will no longer be consolidated into the financial statements of the Group.

The disposal of total equity interest of Zalljinfu Information Technology was completed in July and the disposal of 35% equity interest of Zhong Bang Financial Leasing is expected to be completed in the second half of 2019.

(b) Disposal of Wuhan Guarantee Investment

On 2 August 2019, the Group entered into a disposal agreement with Zhong Bang Asset Management, pursuant to which the Group agreed to dispose total equity interest of Wuhan Guarantee Investment at a consideration of RMB198,000,000. The principal business of Wuhan Guarantee Investment is provision of guarantee services. Upon completion of the disposal, Wuhan Guarantee Investment will be ceased to the subsidiary of the Group and the financial results will no longer be consolidated into the financial statements of the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group employed a total of 2,102 full time employees (30 June 2018: 2,140). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended 30 June 2019, the employees benefit expenses were approximately RMB173.9 million (for six months ended 30 June 2018: approximately RMB158.4 million). The increase is due to the completion of the acquisition of HSH and establishment of Zall Steel in March 2018, resulting in the consolidation of the financial results of those companies for the full six months ended 30 June 2019. The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires.

The Group has also adopted a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants, including the Directors, and full-time or part-time employees, executives or officers of the Group who had contributed to the success of the Group's operations. In relation to the Share Option Scheme, 78,567,950 share options were outstanding as at 30 June 2019.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its corporate governance code of practices. In the opinion of the Board, the Company had complied with all the code provisions as set out in the CG Code throughout the six months ended 30 June 2019.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as the code for dealing in securities of the Company by the Directors during the six months ended 30 June 2019. The Board confirms that, having made specific enquiries with each of the Directors, all Directors have complied with the required standards of the Model Code during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF THE INTERIM RESULTS

The Audit Committee of the Company ("**Audit Committee**") has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules with written terms of reference in compliance with the CG Code. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting, risk management and internal control systems of the Company and to assist the Board to fulfill its responsibilities over the audit.

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim results for the six months ended 30 June 2019 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters of the Group.

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange at http://www.hkexnews.hk and on the website of the Company at http://www.zallcn.com. The interim report for the six months ended 30 June 2019 of the Group containing all the information required by the Listing Rules will also be published on the same websites and dispatched to the shareholders of the Company in due course.

By order of the Board
Zall Smart Commerce Group Ltd.
Yan Zhi
Co-chairman

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises nine members, of which Mr. Yan Zhi, Dr. Gang Yu, Mr. Wei Zhe, David, Mr. Qi Zhiping, Mr. Cui Jinfeng and Ms. Min Xueqin are executive directors of the Company; and Mr. Cheung Ka Fai, Mr. Wu Ying and Mr. Zhu Zhengfu are independent non-executive directors of the Company.