AJISEN RAMEN
味千拉麵

味千(中國)控股有限公司
AJISEN (CHINA) HOLDINGS LIMITED

(Incorporated in the Cayman Islands with Limited Liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：538

味千拉麵

大骨熬湯50年

创始于
1968年

味千拉面，源自日本，全球门店800家

创始于	源自日本	全球門店	直采全球
1968年	九 州	800家	14国食材

2018 年報
ANNUAL REPORT

Ajisen (China) Holdings Limited (stock code: 538) ("Ajisen (China)" or the "Company"; together with its subsidiaries, the "Group") is one of the leading fast casual restaurant ("FCR") chain operators in the People's Republic of China ("PRC") and Hong Kong Special Administrative Region ("Hong Kong"). Since its establishment in 1996, the Group has been selling Japanese ramen and Japanese-style dishes under the Ajisen brand in the PRC and Hong Kong by incorporating Chinese people's culinary preferences and the essence of the Chinese cuisine, and have developed over one hundred types of Japanese-style ramen and dishes that cater for the Chinese people's palate. Combining the elements of fast food shops and traditional restaurant elements, the Group has became a fast-growing FCR chain operator.

After our listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2007, the strong capital support has injected new vitality into the Group's rapid expansion. As a renowned brand in the Food and Beverage ("F&B") industry, Ajisen's fast casual chain restaurants are very popular among consumers with its outlets widely scattered in prime locations of major cities in the PRC and Hong Kong. As at 31 December 2018, the Group's nationwide retail network comprises 766 restaurants, Ajisen restaurants have entered over 160 cities and 31 provinces and municipalities of the PRC. Among the major cities, the international metropolis Shanghai boasts the largest number of Ajisen restaurants, being 129, followed by 91 in Jiangsu and 74 in Zhejiang, together with the remaining 441 restaurants spanning across other major cities from the southern to the northern region of the PRC. In Hong Kong, Ajisen (China) operates 30 chain restaurants with its chain network covering all major business areas of the city. The Group also operates 1 restaurant in Rome of Italy. Moreover, the restaurant network is supported by the Group's Shanghai, Chengdu, Tianjin, Qingdao, Wuhan and Dongguan production bases.

On 30 March 2007, Ajisen (China) was successfully listed on the Main Board of the Stock Exchange, which made it the first domestic catering chain company listed overseas. In 2007, the Group was ranked first among the top 50 fastest-growing Asian enterprises of the year awarded by the influential international financial magazine Business Week.

Ajisen (China)'s initial public offering was also named "2007 Best Mid-Cap Equity Deal" by Finance Asia, a renowned Asian business publication.

In September 2008, the Group acquired a place in "Asia's 200 Best Under A Billion" list made by Forbes, and was selected again as one of the "Chinese Enterprises With Best Potential 2008". Besides, Ms. Poon Wai, Chairman and Chief Executive Officer of the Group, was also enlisted into "Chinese Celebrities" by Forbes.

Ajisen (China) strives to become the No. 1 FCR chain operator in the PRC.

Contents

Corporate Information

Board of Directors

Executive Directors

Ms. Poon Wai
(Chairman and Chief Executive Officer)
Mr. Poon Ka Man, Jason

Non-executive Director

Mr. Katsuaki Shigemitsu

Independent Non-executive Directors

Mr. Lo Peter
Mr. Jen Shek Voon
Mr. Wang Jincheng

Audit Committee

Mr. Jen Shek Voon *(Chairman)*
Mr. Lo Peter
Mr. Wang Jincheng

Remuneration Committee

Mr. Lo Peter *(Chairman)*
Mr. Jen Shek Voon
Mr. Wang Jincheng

Nomination Committee

Mr. Wang Jincheng *(Chairman)*
Mr. Lo Peter
Mr. Jen Shek Voon

Authorised Representatives

Ms. Poon Wai
Ms. Ng Sau Mei

Company Secretary

Ms. Ng Sau Mei *(ACIS, ACS)*

Head Office and Principal Place of Business in Hong Kong

6th Floor, Ajisen Group Tower
Block B
24-26 Sze Shan Street
Yau Tong, Kowloon
Hong Kong

Registered Office

Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town
Grand Cayman
Cayman Islands

Principal Share Registrar and Transfer Office

Appleby Corporate Services (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350 GT
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Chong Hing Bank Limited
Bank of Shanghai Co., Ltd
OCBC Wing Hang Bank Limited

Auditor

Deloitte Touche Tohmatsu

Hong Kong Legal Adviser

Fairbairn Catley Low & Kong

Investor and Media Relations Consultant

iPR Ogilvy Ltd
www.iprogilvy.com

Investor Relations Contact

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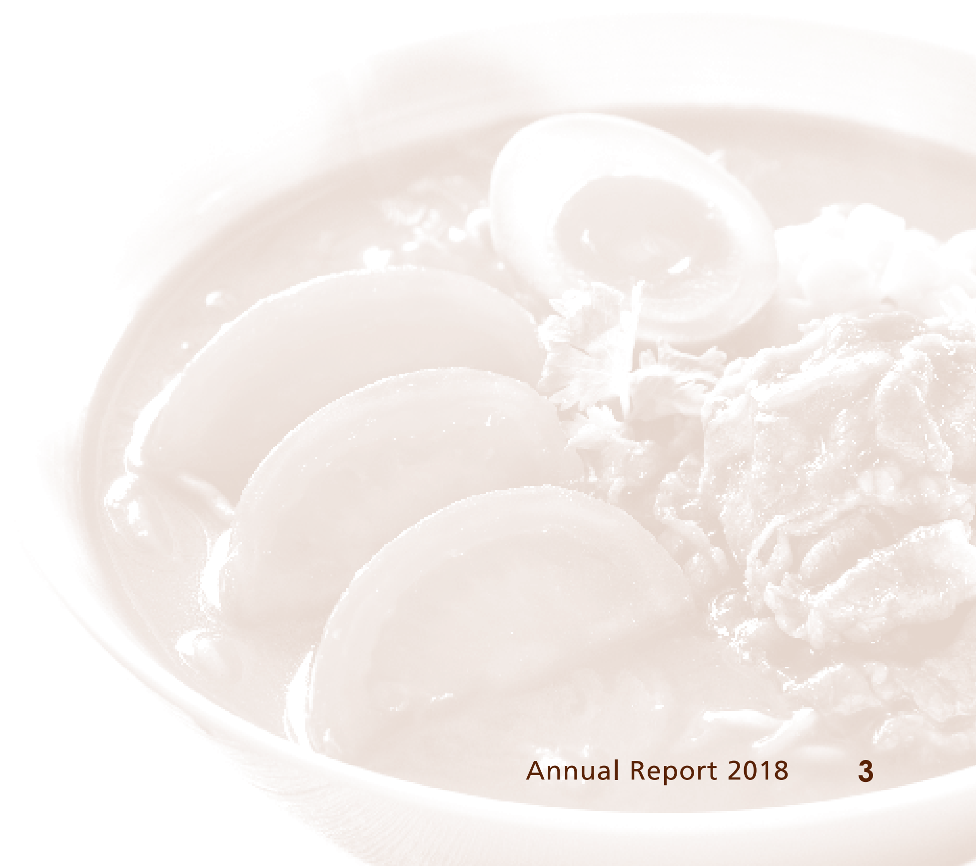
Stock Code

538



Financial Highlights

	2018	2017	Change
Turnover (RMB'000)	**2,377,745**	2,332,283	1.9%
Sales from restaurant operation (RMB'000)	**2,218,124**	2,211,658	0.3%
Gross profit (RMB'000)	**1,793,025**	1,754,527	2.2%
Profit/(loss) before taxation (RMB'000)	**673,865**	(533,862)	226.2%
Profit/(loss) attributable to owners of the Company (RMB'000)	**551,020**	(486,650)	213.2%
Basic earnings (loss) per share (RMB)	**0.50**	(0.45)	211.1%
Total dividend per share (RMB)	**0.12**	0.06	100%
Total number of restaurants (at 31 December)	**766**	704	8.8%
Total assets (RMB million)	**4,137.9**	3,673.4	12.6%
Net assets (RMB million)	**3,305.7**	2,945.9	12.2%
Bank balances and cash (RMB million)	**1,356.4**	1,534.1	11.6%
Inventory turnover (days)	**49.5**	44.5	5 days
Trade payable turnover (days)	**59.1**	60.5	1.4 day
Net gross profit margin	**75.4**	75.2	0.2%
Net profit (loss) margin	**23.2**	(20.9)	44.1 points
Current ratio	**3.4**	2.9	0.5 points
Return on equity	**17.1%**	(19.8%)	36.9 points
Gearing ratio	**5.3%**	8.7%	-3.4 points

Chairman's Statement

As of 31 December 2018, the Group's turnover increased by 1.9% from the corresponding period of last year. Profit margin decreased from 12.9% to 9.7%, while cost of inventories (food) decreased from 24.8% to 24.6%, rental costs increased from 16.4% to 17.0%, labour costs increased from 25.3% to 25.6% and other operating costs increased from 14.1% to 16.5%.

During the year, the Ajisen Membership Task Force was formally set up by the Group to develop membership marketing schemes, improve customer loyalty and satisfaction, thereby driving sales growth. In December 2018, the brand new Ajisen Membership Tier Privileges were officially launched. It is estimated that the number of members will reach 4 million in 2019.

In 2018, due to a continuous increase in the demand for and the proportion of takeaway service in the catering industry, the Group will grasp such market opportunities and continue to enhance the promotion of its takeaway service. The Group's turnover from takeaway service increased by approximately 8.8% from RMB194,000,000 at the end of 2017 to RMB211,000,000 at the end of 2018, representing an increase in the proportion of turnover to restaurants offering takeaway service from 9.0% in 2017 to 10.1% in 2018.

As of 31 December 2018, the Group operated a total of 766 restaurants, representing an increase of 62 from 704 restaurants in the corresponding period of last year. In particular, the Group opened 117 new restaurants, with 113 in Mainland China and 4 in Hong Kong, and closed down 55 restaurants, with 52 in Mainland China and 3 in Hong Kong.

With respect to labour costs, as of the end of 2018, 41.7% of staff were employed on a part-time basis in China, while 46% of employees worked on a part-time basis in Shanghai, enabling the Group to manage labour costs in a more cost effective manner. The Group always values talent, and thus has implemented the five-star performance policy, with a view to reducing manpower while improving efficiency. By virtue of the personnel management module of the BOH system (Back of House system), the Group was able to constantly optimise its employee management, as precise estimates on human resources composition are conductive to regulating reasonable labour planning, and thus facilitating the effective control of human resources allocation in each restaurant. Meanwhile, the personnel utilisation rate was further improved through standardised management. Over the long-term, the Group's proportion of labour costs to turnover will be maintained at a stable level.

With respect to procurement, the Group continued its efforts to increase the proportion of direct procurement and the percentage of which amounted to 75.9%. In addition, the Group kept enhancing the quantity and quality of its suppliers at home and abroad, so as to bring consumers reasonably priced tasty and premium foods. On the one hand, the Group maintained its close partnership with large suppliers of meat products in the PRC, such as China Animal Husbandry Group, Shuanghui and Yurun; on the other hand, the Group developed various direct overseas procuring channels from Spain, Germany, the Netherlands and Brazil and cooperated with PMI, an international buyer group, for the purpose of procuring meat ingredients of higher quality at more favourable prices. In 2019, the Group will further optimise its global procurement and supply chain for meat products to introduce European and American pork, while pursuing cooperation with major suppliers of meat products so as to control procurement costs. As for fruits and vegetables, the Group will strive to secure direct supply from fruit and vegetable farms, so as to optimise its supply chain for fruits and vegetables.

In terms of branding activities, on 27 November 2018, Ajisen Ramen held a brand strategy upgrading press conference in Shanghai Center, named "50 Years of Devotion to Bone Soup Simmering Built a Global Network of 800 Stores", aiming at further consolidating the market position of Ajisen, improving its brand reputation and influence. In celebrating the 50th anniversary of the Ajisen brand, Ajisen Ramen organised an event themed "Free Birthday Noodle for the Whole City" in Shanghai, which attracted widespread attention and praise from online and offline. Facing increasingly fierce competition in the industry, the Group will enhance its interactivity with consumers to better understand needs of the market, and will launch various promotional activities on a regular basis to reward our consumers.

Finally, I would like to express my sincere gratitude to all shareholders and customers for their continuous support to and persistent collaboration with the Group during the past year, as well as the members of the Board, the management and all staff for their efforts and dedication to our development. Ajisen (China) will seize market opportunities and steer the Company towards sustainable development and growth, with a view to creating greater value for our shareholders, customers and employees, and to building a better future together.

Management Discussion and Analysis

Industry Review

In 2018, despite the profound changes in international environment and the complex evolution of the China-US economic and trade frictions, China has made further breakthroughs in reforms and continued to implement structural adjustments. Facing a complex environment both at home and abroad, China's economy achieved generally stable growth while making further progress and its GDP grew by 6.6% (corresponding period of 2017: 6.9%) year-on-year to RMB90,030.9 billion. Personal income increased stably, supply-side structural reform was further advanced and the transformation and upgrading of the economy was continued. Thanks to all these, consumer prices recorded moderate growth, and the China Service Production Index increased by 7.7% throughout the year as compared to that of 2017.

The increasing per capita income drove the upgrading of consumers' demand for the catering industry. According to the National Bureau of Statistics of China, in 2018, the revenue of the catering industry increased by 9.5% (corresponding period of 2017: 10.7%) year-on-year to RMB4,271.6 billion, exceeding RMB4 trillion for the first time. The growth of the catering industry was 0.5 percentage point higher than that of the entire consumer market (9.0%). As the catering market continues to expand, catering consumption has become the main growth driver for the domestic consumption market. New business models such as takeaway and group meals have led the catering consumption market.

Demands for takeaway services have been increasing in the fast-paced urban lives, and the takeaway services have even gradually changed the catering cultures and habits. After the fierce competition and waves of mergers and acquisitions caused by subsidies in previous years, the takeaway industry in China has ceased its explosive growth, and marched into a period of integration which places high emphasis on brand, quality and service. In recent years, the scale of online takeaway market has experienced fast growth with increasing shares in the domestic catering industry. According to the "Annual Report on the Development of China's Sharing Economy (2019) (《中國共享經濟發展年度報告(二零一九)》) issued by the State Information Center, revenue from the online takeaway services in China amounted to approximately RMB471.2 billion in 2018, representing approximately 10.6% of the total revenue of the catering industry in China, 3 percentage points higher than that of last year. According to the 43rd Statistical Report on Internet Development in China (《中國互聯網絡發展狀況統計報告》) issued by China Internet Network Information Center, as of December 2018, the number of users of online takeaway services reached 406 million, representing an increase of 18.2% as compared to the end of 2017, among which 49.0% were Internet users. As the fast food takeaway market further penetrates into the catering market, the takeaway industry will embrace all categories of food, segmentation, intelligence and new retail in the future.

As ordering takeaway gradually becomes a habit, consumers' demand for catering consumption will also be constantly upgraded, and the quality and service of the catering industry will be the focus of consumers. Also, we will adapt to the demand of consumers, putting more efforts on quality, refinement and experience.

Nowadays, the development of the catering industry is shifting from "outward expansion" to "self-enhancement" and from "scale-and-speed-oriented" to "quality-and-efficiency-oriented". The industry is experiencing a comprehensive improvement in terms of operation and management, brand building, model innovation, technology application, modern supply chain and other aspects. Enhancing the quality of supply-side through the supply-side structural reform is the key development direction of the catering industry while improving development quality and efficiency will be its basic development strategy.

The Group will continue to adopt lean management approach and strictly control the quality of food. Moreover, the Group will establish smart stores to enhance customer experience through proactive development and research of intelligence technology. Meanwhile, the management is currently seeking targets of investment actively, with a view to grasping opportunities arising from industry reform and bringing better return on investment for Shareholders.

Business Review

For the year ended 31 December 2018, the Group's turnover increased from approximately RMB2,332 million in 2017, by approximately 1.9% to approximately RMB2,377 million in 2018. The gross profit of the Group reached approximately RMB1,793 million, an increase of approximately 2.2% from last year. Profit from operation for the year of the Company decreased by approximately 23.1% and profit attributable to the owners of the Company increased by approximately 213.2% to RMB551 million from loss of approximately RMB487 million last year. Correspondingly, basic earnings per share increased from a loss of RMB0.45 last year to earnings of RMB0.5 per ordinary share.

Given the growth of the current operation of the Company during the year, the Board recommended a final dividend of RMB0.1 (2017: RMB0.04) per ordinary share for the year ended 31 December 2018 as a return to the Shareholders.

The support from its production bases is an integral factor for the sustainable and steady expansion of the Group's chain restaurant network. As at 31 December 2018, the Group has six major production bases in Shanghai, Chengdu, Tianjin, Wuhan, Qingdao and Dongguan throughout China.

During the year, the Group continued the expansion of fast casual restaurant ("FCR") network as planned. The Group adopted more focused strategies in its development, and continued to expand the restaurant network and deepened the density in mature markets, such as Beijing, Jiangsu, Zhejiang and Shanghai.

During the year, the Group's cost of inventories consumed as a proportion to turnover was approximately 24.6%, indicating a decrease of approximately 0.2 percentage point from that of the corresponding period last year. Accordingly, gross profit margin increased from approximately 75.2% last year to approximately 75.4% in 2018. The Company leveraged on the adjustment of menu prices and adoption of direct purchase to stabilize the cost of raw materials. In addition, benefit from the value added tax ("VAT") reform in PRC with effective from 1 May 2016, the Group will be able to maintain a relatively high and stable gross profit margin.

During the year, the Group's labour costs accounted for approximately 25.6% of the turnover, which was approximately 0.3 percentage point higher than that of the corresponding period of last year. During the year, proactive cost control measures were implemented, and obvious effects were witnessed. The Group continued the policy for staff allocation based on restaurant scale, optimized the ordering system and hiring more managerial experienced staff. These measures enhanced the efficiency of human resource utilization, leading to an increase in labor cost approximately 3% but with the shop number increased by approximately 8.8%.

During the year, rental and related costs as a proportion to turnover of the Group was approximately 17%, which was approximately 0.6 percentage point higher than that of the corresponding period last year. Such increase was mainly attributable to the fact that the slower turnover growth for the period and with the recovery of turnover, rental costs will be diluted further, pushing up the proportion of rental and related costs to turnover. On the other hand, the number of stores increased by 62 compared with last year. During the year, the Group maintained stringent criteria in location selection for new restaurants to ensure the rate of success of the new establishment. Also, a large number of medium- and small-sized restaurants were developed so as to enhance the output per unit area. On the other hand, with our branding effect becoming stronger, the Group has secured fixed leases on a long-term basis.

The Group has timely introduced a number of enriched and attractive marketing activities. During the year, the Group featured the promotional sales of various attractive premiums. The feedback was excellent and the promotions facilitated an increase in transaction amount. These activities not only encouraged new and existing customers to visit the restaurants, but also helped the Group to fully benefit from the market recovery.

The effective operation of 766 restaurants under the Group would not be achieved without our efficient management and intensive staff training. During the year, the Group placed emphasis on the guidance and training of restaurant managers and regional supervisors. The operational efficiency of each restaurant was enhanced through constant upgrading of its basic management level. The Group also launched inter-restaurant competitions and new incentive bonus scheme so as to fully motivate its staff.

Retail Chain Restaurants

In 2018, the Group's major business and primary source of income continued to stem from the retail chain restaurant business. During the year, the Group's restaurant business income recorded approximately RMB2,218,124,000 (2017: RMB2,211,658,000), accounted for approximately 93.3% (2017: 94.8%) of the Group's total revenue.

As at 31 December 2018, the Group's restaurant portfolio consisted of 766 Ajisen chain restaurants, comprising the following:

	31 December 2018	31 December 2017	+/–
By provinces:			
Shanghai	**129**	129	0
Beijing	**47**	45	2
Tianjin	**6**	6	0
Guangdong (excluding Shenzhen)	**49**	49	0
Shenzhen	**22**	22	0
Jiangsu	**91**	85	6
Zhejiang	**74**	66	8
Sichuan	**16**	16	0
Chongqing	**12**	14	-2
Fujian	**25**	24	1
Hunan	**18**	19	-1
Hubei	**16**	18	-2
Liaoning	**24**	20	4
Shandong	**47**	38	9
Guangxi	**13**	10	3
Guizhou	**4**	3	1
Jiangxi	**15**	16	-1
Shaanxi	**15**	13	2
Yunnan	**12**	9	3
Henan	**14**	8	6
Hebei	**12**	7	5
Anhui	**19**	13	6
Xinjiang	**3**	1	2
Hainan	**9**	8	1
Shanxi	**4**	1	3
Neimenggu	**5**	5	0
Heilongjiang	**14**	12	2
Ningxia, Qinghai	**4**	3	1
Jilin	**15**	13	2
Tibet	**1**	1	0
Hong Kong	**30**	29	1
Rome	**1**	1	0
Total	**766**	704	62

	31 December 2018	31 December 2017	+/–
By geographical region:			
Northern China	**178**	142	36
Eastern China	**296**	293	3
Southern China	**148**	158	-10
Central China	**143**	110	33
Italy	**1**	1	0
Total	**766**	704	62

Risk Management

Liquidity and financial resources

The liquidity and financial position of the Group as at 31 December 2018 remained healthy and strong, with bank balances amounting to RMB1,356,047,000 (31 December 2017: RMB1,534,103,000) and a current ratio of 3.4 (31 December 2017: 2.9).

As at 31 December 2018, the Group had bank borrowings of RMB219,511,000 (31 December 2017: RMB320,118,000) and therefore the gearing ratio (expressed as a percentage of total borrowings over total assets) was 5.3 (31 December 2017: 8.7).

Exposure to exchange rates

Presently, most of the Group's business transactions, assets and liabilities are denominated in RMB and settled in RMB. The Group's exposure to currency risk is minimal as the Group's assets and liabilities as at 31 December 2018 and 31 December 2017 were denominated in the respective Group companies' functional currencies. The Group does not have any currency hedging policy and has not entered into any hedging or other instrument to reduce currency risks. However, the management will closely monitor the Group's exposure to the fluctuation of exchange rates and take appropriate measures as necessary to minimise any adverse impact that may be caused by such fluctuation.

Significant investments held, material acquisitions and disposals of subsidiaries, and future plans for material investments or capital assets

Save for those disclosed in this annual report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the year under review. Apart from those disclosed in this annual report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this annual report.

Interest rate risk

As the Group has no significant interest-bearing assets (other than pledged bank deposits and bank balances and cash), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade receivables, deposits and other receivables, bank balances and cash, pledged bank deposits included in the consolidated balance sheets represent the maximum exposure to credit risk in relation to the Group's financial assets. The Group typically does not require collaterals from customers. Provisions are made for the balance that is past due when the management considers the loss from non-performance by the customers is likely. Sales to retail customers are settled in cash or by using major credit cards. The Group also makes deposits to the relevant landlords for lease of certain of the self-managed outlets. The management does not expect to incur any loss from non-performance by these counterparties.

As of 31 December 2018 and 31 December 2017, all of the bank balances and pledged bank deposits were deposited with highly reputable and sizable banks and financial institutions without significant credit risk in the PRC and Hong Kong. The management does not expect to incur any loss from non- performance by these banks and financial institutions.

Contingent liabilities

As of 31 December 2018, the Group did not have any significant contingent liabilities.

Assets and liabilities

The Group's net current assets were approximately RMB1,322,723,000 and the current ratio was 3.4 as at 31 December 2018 (31 December 2017: 2.9). As the Group is primarily engaged in the restaurant business, most of the sales are settled in cash. As a result, the Group was able to maintain a relatively high current ratio.

Cash flows

Cash generated from operations for the year ended 31 December 2018 was approximately RMB360,842,000, while profit before taxation for the same period was approximately RMB673,865,000. The difference was primarily due to the compensation gain in relation to a prior year investment.

Capital expenditure

For the year ended 31 December 2018, the Group's capital expenditure was approximately RMB334,591,000 (2017: RMB260,834,000), the increase was mainly because more money spent on purchase of financial asset.

Key operating ratios for restaurant operations

	Hong Kong			PRC		
	1-12/2018	1-6/2018	1-12/2017	**1-12/2018**	1-6/2018	1-12/2017
Comparable restaurant sales growth[Note]:	**-6.9%**	-7.5%	-6.8%	**-2.6%**	-2.2%	2.2%
Per capita spending:	**HK$65.8**	HK$65.1	HK$65.3	**RMB48.0**	RMB47.8	RMB47.9
Table turnover per day (times per day):	**4.1**	4.0	4.2	**3.4**	3.4	3.5

Note: On 23 March 2016, the Ministry of Finance and the State Administration of Taxation of the PRC jointly issued the 財税[2016]36號通知 (Caishui [2016] No. 36 (Circular)) which provides the Business Tax to Value-Added Tax Transformation Pilot Program (the "Program") for, among others, 生活服務 (lifestyle services) which covers the catering services provided by the Group, effective from 1 May 2016. Under the Program, the 5% business tax ("BT") rate formerly applicable to the sale of the FCR business was replaced by VAT at the rate of 3% or 6% levied on the sales since 1 May 2016. Before the implementation of the Program, the same store sales growth rate in the PRC was reported on a BT-inclusive basis. After such implementation, the same store sales growth rate in the PRC is reported on a net of VAT basis.

Introduction

The board (the "Board") of directors (the "Directors") and the senior management (the "Management") of the Company recognize that sound corporate governance practices are crucial to the efficient operation of the Group and the safeguarding of our shareholders' interests. In this regard, the Board emphasizes on transparency, accountability and independence in order to enhance our long-term shareholders' return.

Corporate Governance Practices

The Company has, throughout the year ended 31 December 2018, adopted the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and complied with all applicable code provisions under the Code, save and except for the deviation from the code provision A.2.1 of the Code. Under the code provision A.2.1, the roles of the Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision A.2.1, i.e. the roles of the Chairman and CEO have not been separated. Although Ms. Poon Wai performs both the roles of Chairman and CEO, the division of responsibilities between the Chairman and CEO is clearly established and set out in writing. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the CEO is responsible for the management of the business of the Group. The two roles are performed by Ms. Poon distinctly. The Board believes that at the current stage of development of the Group, vesting the roles of both Chairman and CEO in the same person provides the Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies. The relevant deviation is therefore considered reasonable at the current stage. It is also considered that the current structure does not impair the balance of power and authority between the Board and the Management given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors (number of which exceeds one-third of the members of the Board). However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard (the "Required Standard") of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

The Company has made specific enquiry to all Directors, and all Directors have confirmed that, throughout the year under review, they were in compliance with the Required Standard.

In addition, the Board has adopted written guidelines (the "Employees' Guidelines for Securities Transactions") for securities transactions by employees (the "Relevant Employees") who are likely to be in possession of inside information of the Company on no less exacting terms than the Model Code.

Having made specific enquiry to all the Relevant Employees, the Company confirmed that all the Relevant Employees have complied with the Required Standard as set out in the Employees' Guidelines for Securities Transactions throughout the year ended 31 December 2018.

The Board of Directors

The Board is the core of the corporate governance structure of the Company. It is responsible for giving guidance to and reviewing the efficiency of the Management. The Board is fully aware of its prime responsibilities to the Company and its duties to protect and enhance long-term shareholders' return.

To provide effective supervision of and proper guidance to the Management, the Board is required to consider and approve decisions in relation to the Company's long-term strategy, annual business plan and financial budget, major acquisition and disposal, dividend policy, appointment of Directors, remuneration policy, risk management and internal control.

The Company has arranged appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

As regards the code provision requiring the Directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

Composition

The Board currently consists of six Directors as follows:

Executive Directors
Ms. Poon Wai
Mr. Poon Ka Man, Jason

Non-executive Director
Mr. Katsuaki Shigemitsu

Independent Non-executive Directors
Mr. Lo Peter
Mr. Jen Shek Voon
Mr. Wang Jincheng

All Directors have appropriate professional qualification or substantive experience and industry knowledge. The Board as a whole has achieved an appropriate balance of skills and experience. The Directors' biographies are set out under the section headed "Directors and Senior Management" of this annual report.

Ms. Poon Wai, the Chairman, Chief Executive Officer and executive Director, is the sister of Mr. Poon Ka Man, Jason, who is an executive Director. Save as disclosed, there is no other relationship among members of the Board.

The composition of the Board is in accordance with the requirement of Rules 3.10 and 3.10A of the Listing Rules. There are three independent non-executive Directors and one of them has accounting professional qualification. More than one-third of the members of the Board are independent non-executive Directors, which brings a fairly strong independence element in its composition.

Independent Non-Executive Directors ("INEDs")

The INEDs have the same duties of care, skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs are experienced professionals with expertise in respective areas of accounting, finance, industry knowledge and expertise. With their professional knowledge and experience, the INEDs advise the Company on its operation and management; provide independent opinion on the Company's connected transactions; and participate in the Company's various committees including Audit Committee, Remuneration Committee and Nomination Committee. The INEDs have contributed to provide adequate checks and balance to protect the interests of the Company and the Company's shareholders as a whole, and to advise strategically the development of the Company.

The Company has received confirmation from each of the INEDs about his independence in accordance with Rule 3.13 of the Listing Rules and therefore considers each of them to be independent.

All of the Directors including the non-executive Director and the INEDs are appointed for a specific term. Each of the non-executive Director and the INEDs has entered into a letter of appointment with the Company for a period of two years subject to the rotation requirement. In accordance with the Company's articles of association (the "Articles of Association") and, at each Annual General Meeting ("AGM") of the Company, one-third of the Directors for the time being will retire from office by rotation but will be eligible for re-election.

Delegation by the Board

To maximise the effectiveness of the Group's operations, the Board has delegated management and administration of the Group's daily operations to the Executive Committee while reserving several important matters for its approval. To this end, the Board delegates on specific terms to the Executive Committee consisting of the Chairman of the Board, Chief Executive Officer, Executive Directors and Chief Operating Officer to carry out the well-defined responsibilities with adequate authorities and to take charge in daily operation of the Company, advising the Board in formulating directions and making policies as well as significant corporate decisions reserved by the Board, and ensuring the proper execution of the resolutions approved by the Board. For such purposes, the Board has laid down clear written terms of reference which specify those circumstances under which the Executive Committee shall report to the Board for its decisions in respect of the matters and commitments for which prior approval of the Board is required.

Pursuant to the terms of reference of the Executive Committee, the major functions specifically reserved to the Board are summarized as follows:

(i) approving annual operating budget of the Group;

(ii) approving connected transactions;

(iii) approving mergers and acquisitions;

(iv) approving fund raising activities (including debt or capital issues);

(v) approving corporate guarantee;

(vi) approving internal control policy;

(vii) approving financial results announcements; and

(viii) approving other disclosures specifically required by or matters as specifically mentioned under the Listing Rules.

The Executive Committee is principally, among others, responsible for:

(i) reviewing business strategies and management of the Company;

(ii) formulating and implementing investment and financing activities of the Company;

(iii) implementing the Company's strategies, monitoring performance of the Management and ensuring appropriate internal risk controls and risk management are in place;

(iv) implementing measures and procedures in compliance with the laws, regulations, Listing Rules, articles of association and internal regulations applicable to the Company;

(v) setting human resources policies of the Company; and

(vi) granting of share options to the eligible employees (other than Directors and Management) for a total of not more than the number of share options as specified and approved by the Board from time to time.

Corporate Governance Function

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

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

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

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

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

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

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

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

Chairman and Chief Executive Officer ("CEO")

Under the code provision A.2.1, the roles of Chairman and CEO should be separate and should not be performed by the same individual. Under the current organization structure of the Company, Ms. Poon Wai is the Chairman of the Board and the CEO. With her extensive experience in the industry, the Board believes that vesting the roles of both Chairman and CEO in the same person provides the Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies, and is beneficial to the business prospects and management of the Group. Although Ms. Poon Wai performs both the roles of Chairman and CEO, the division of responsibilities between the Chairman and the CEO is clearly established and set out in writing. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the CEO is responsible for the management of the business of the Group. The two roles are performed by Ms. Poon Wai distinctly. It is also considered that the current structure does not impair the balance of power and authority between the Board and the Management given the appropriate delegation of the power of the Board and the effective functions of the INEDs (number of which exceeds one-third of the members of the Board). However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

Induction and Continuing Professional Development of Directors

Each newly appointed Director shall receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Directors will be continuously updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company updates the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

According to the information provided by the Directors, a summary of training received by the Directors throughout the year ended 31 December 2018 is as follows:

Name of Directors	Nature of continuous professional development programmes
Executive Directors	
Ms. Poon Wai	A
Mr. Poon Ka Man, Jason	A
Non-Executive Director	
Mr. Katsuaki Shigemitsu	A
INEDs	
Mr. Lo Peter	A
Mr. Jen Shek Voon	A
Mr. Wang Jincheng	A

Note:

A: reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

Supply of and Access to Information

The Company provides all Directors with monthly updates on the Company's performance, position and prospects. In addition, in order to ensure that the Directors' duties can be properly discharged, the Directors are entitled to seek advice from independent professional advisers whenever deemed necessary by them at the Company's expense.

Board Meetings

The Board meets regularly, and at least four times a year, in person or by means of electronic communication. The Chairman also meets with the non-executive Directors (including the INEDs) at least once a year without the presence of the executive Directors. Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For all other Board and Board committee meetings, reasonable notice is generally given. All notices, agendas, schedules and the relevant information of each Board and Board committee meeting are generally made available to Directors or Board committee members in advance. The Board and each Director also have separate and independent access to the Management whenever necessary.

The company secretary of the Company or the secretary to the Board committees is responsible for taking and/or keeping minutes of all Board meetings and various Board committees meetings in sufficient detail. Draft minutes are normally circulated to the Directors for comment within a reasonable time after each meeting is held, and the final version of the minutes is opened for Directors' inspection.

During the year ended 31 December 2018, the Board convened a total of four meetings in person or by means of electronic communication. Attendance of each Director at the Board meetings, the annual general meeting of the Company held on 23 May 2018 (the "2018 AGM") is set out below:

Name of Directors	Board Meetings Attended/Eligible to attend	General Meeting(s) Attended/Eligible to attend
Executive Directors		
Ms. Poon Wai	4/4	1/1
Mr. Poon Ka Man, Jason	4/4	1/1
Non-Executive Director		
Mr. Katsuaki Shigemitsu	3/4	1/1
INEDs		
Mr. Lo Peter	4/4	1/1
Mr. Jen Shek Voon	4/4	1/1
Mr. Wang Jincheng	4/4	1/1

Independent Board Committee

Where there are matters involving connected or continuing connected transactions, so far as required under the Listing Rules, an Independent Board Committee, comprising wholly the INEDs, will be established.

Board Committees

The Board has established four committees, including the Executive Committee, the Remuneration Committee, the Nomination Committee and the Audit Committee with delegated powers for overseeing particular aspects of the Company's affair. Each of the Board committees of the Company has been established with defined written terms of reference.

Executive Committee

To assist the Directors to discharge some of their duties and to enable effective management and execution, the Board has established an Executive Committee on 29 June 2007. Details of the authorities and duties of the Executive Committee are set out in its terms of reference. The Executive Committee reviews specific issues and makes their suggestions to the Board on reserved matters as mentioned above.

Currently, the Executive Committee comprises two executive Directors as follows:

Ms. Poon Wai *(Chairman and CEO),*
an executive Director
Mr. Poon Ka Man, Jason *(Chief Marketing Officer),*
an executive Director

There were two Executive Committee meetings held during the year ended 31 December 2018. Attendance of each Executive Committee member at the Executive Committee Meetings is set out below:

Name of Members	Executive Committee Meeting Attended/Held
Ms. Poon Wai	2/2
Mr. Poon Ka Man, Jason	2/2

Remuneration Committee

The Remuneration Committee was set up on 8 March 2007 in compliance with Appendix 14 of the Listing Rules. Details of the authorities and duties of the Remuneration Committee are set out in its terms of reference, which are available on the websites of the Company and the Stock Exchange. The main purpose for establishing the Remuneration Committee is to ensure that the Company can recruit, retain and motivate suitably qualified staff in order to reinforce the success of the Company and create return for our shareholders. The terms of reference of the Remuneration Committee are summarized as follows:

(i) to make recommendations to the Board on the policy and structure for all remuneration of Directors and senior management of the Company, as well as on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(ii) to have delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, and make recommendations to the Board of the remuneration of non-executive Directors subject to the provision (vi) below;

(iii) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(iv) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment and ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is not otherwise unfair and in excessive for the Company;

(v) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct and ensure that such arrangements are determined in accordance with the relevant contractual terms and that any compensation payment is not otherwise unreasonable and inappropriate; and

(vi) to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

Currently, the Remuneration Committee comprises three INEDs as follows:

Mr. Lo Peter *(Chairman)*, an INED
Mr. Jen Shek Voon, an INED
Mr. Wang Jincheng, an INED

The Remuneration Committee may call any meetings at anytime when necessary or desirable pursuant to the terms of reference of the Remuneration Committee.

During the year ended 31 December 2018, the Remuneration Committee convened one committee meeting. Attendance of each Remuneration Committee member is set out below:

Name of Members	**Remuneration Committee Meeting Attended/Eligible to attend**
Mr. Lo Peter	1/1
Mr. Jen Shek Voon	1/1
Mr. Wang Jincheng	1/1

The Remuneration Committee discussed and reviewed the remuneration policy and packages for Directors and senior management during the meeting.

Details of the Directors' remuneration are set out in note 11 to the consolidated financial statements.

Nomination Committee

The Nomination Committee was set up on 8 March 2007. Details of the authorities and duties of the Nomination Committee are set out in its terms of reference, which are available on the websites of the Company and the Stock Exchange. Its roles are highlighted as follows:

(i) to review the structure, size and composition of the Board (including the skills, knowledge and experience) on a regular basis and make recommendations to the Board regarding any proposed changes;

(ii) to identify individuals suitably qualified to become Board members, and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iii) to assess the independence of INEDs; and

(iv) to make recommendations to the Board on the relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the CEO.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

Nomination Policy

The Company has adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and nomination procedures to identify and select potential candidates for directorship.

Selection Criteria

The following factors would be considered in assessing any potential candidate for directorship:

(a) reputation for integrity;

(b) commitment in respect of available time and attention;

(c) accomplishment, professional knowledge and industry experience which are relevant to the Company;

(d) the number of existing directorships held by the potential candidate, in particular, on the boards of the listed companies;

(e) the potential contributions that the potential candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity; and

(f) in case of appointment of independent non-executive director, the compliance with the criteria of independence as ascribed under Rule 3.13 of the Listing Rules.

Nomination Procedures

A. Appointment of New Director

(i) The potential candidate will submit biographical information as required by the Nomination Committee for its evaluation whether the potential candidate is qualified to be a director of the Company.

(ii) A meeting of the Nomination Committee will be convened for the members of the Committee to discuss and consider (having regard to the potential contributions that the potential candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity); and make recommendation to the Board, if applicable.

(iii) Where appropriate, the Board will make recommendations to the shareholders for election of the proposed director at general meeting.

(iv) Any shareholder can nominate a person to be a director of the Company in accordance with the "Procedures for shareholders to propose a person for election as directors" issued by the Company, which is available on the websites of the Stock Exchange and the Company. The Board and/or the Nomination Committee will evaluate the nominated person with reference to the criteria set out under (ii) above to determine if the nominated person is qualified to be a director of the Company.

B. Re-election of Director

(i) The Nomination Committee will review the contribution and services rendered to the Company of the retiring directors to be re-elected at general meeting in accordance with the Articles of Association.

(ii) The Nomination Committee will make recommendations to the Board for the proposed directors to stand for re-election at general meeting.

(iii) Where appropriate, the Board will make recommendations to the shareholders for re-election of retiring directors at general meeting.

Disclosure of the Policy

A summary of the work performed by the Nomination Committee during a financial year, including the disclosure of the Policy for the nomination of directors, nomination procedures and the process and criteria adopted to select and recommend for directorship, will be disclosed in the corporate governance report under the annual report of the Company.

Review of the Policy

The Nomination Committee will monitor and review the Policy regularly with reference to the structure, size and composition of the Board to ensure the Policy meets the current regulatory requirements and the business needs of the Company.

Currently, the Nomination Committee comprises three INEDs as follows:

Mr. Wang Jincheng *(Chairman)*, an INED
Mr. Lo Peter, an INED
Mr. Jen Shek Voon, an INED

The Nomination Committee may call any meetings at anytime when necessary or desirable pursuant to the terms of reference of the Nomination Committee.

During the year ended 31 December 2018, the Nomination Committee convened one committee meeting and had assessed the independence of INEDs, considered the re-appointment of the retired Directors and discussed matters relating to procedure of nomination of director candidate by shareholders, Directors' evaluation and succession plan etc. Attendance of each Nomination Committee member at the Nomination Committee meeting is set out below:

Name of Members	Nomination Committee Meeting Attended/Eligible to attend
Directors	
Mr. Wang Jincheng	1/1
Mr. Lo Peter	1/1
Mr. Jen Shek Voon	1/1

Board Diversity Policy

On 2 December 2014, the Board adopted the Board Diversity Policy. Under the Board Diversity Policy, the Nomination Committee will monitor the implementation of the Board Diversity Policy and give adequate consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board. Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience and qualifications, length of service, skills, knowledge and industry experience. The selection of potential candidate will be based on the potential contributions that the potential candidate can bring to the Board, having due regard to the benefits of diversity on the Board without focusing on a single diversity aspect. As at the date of this annual report, the Board consists of a diverse mix of Directors from different genders, ethnicities, length of services as well as professional experience and qualifications. The Board will regularly review the Board Diversity Policy and make appropriate revisions to ensure the effectiveness of the Board Diversity Policy.

Audit Committee

The Audit Committee was set up on 8 March 2007 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules, its terms of reference are available on the websites of the Company and the Stock Exchange. The principal duties of the Audit Committee include:

(i) to be primarily responsible for making recommendation to the Board on the appointment, re-appointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor and any questions of resignation or dismissal of that auditor;

(ii) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(iii) to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure coordination where more than one audit firms are involved;

(iv) to develop and implement policy on the engagement of an external auditor to supply non-audit services;

(v) to monitor integrity of the Company's financial statements and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports and to review significant financial reporting judgments contained in them before submission to the Board;

(vi) to review the Company's financial controls, internal control and risk management systems;

(vii) to discuss with the Management the system of internal control and ensure that the Management has discharged its duty to have an effective internal control system, including the adequacy of resources, qualifications, and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

(viii) to review the Group's financial and accounting policies and practices; and

(ix) to report to the Board on any other matters set out in the Code.

Currently, the Audit Committee comprises three INEDs as follows:

Mr. Jen Shek Voon *(Chairman)*, an INED
Mr. Lo Peter, an INED
Mr. Wang Jincheng, an INED

The Audit Committee meeting shall be held not less than twice a year pursuant to the terms of reference of the Audit Committee.

Up to the date of this annual report, the Audit Committee convened three committee meetings. Attendance of each Audit Committee member at the Audit Committee meetings is set out below:

Name of Members	Audit Committee Meetings Attended/ Eligible to attend
Directors	
Mr. Jen Shek Voon	3/3
Mr. Lo Peter	3/3
Mr. Wang Jincheng	3/3

The Audit Committee is satisfied with their review of the auditor's remuneration, the independence of the auditor, Deloitte Touche Tohmatsu ("DTT"), and recommended the Board to re-appoint DTT as the Company's auditor in the year 2019, which is subject to the approval of shareholders at the forthcoming AGM.

The Company's interim results for the period ended 30 June 2018 and annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee, which opined that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

As disclosed in the Company's announcements dated 14 December 2018 and 13 March 2019, the Company reported that Mr. Lau Ka Ho, Robert ("**Mr. Lau**"), the former chief financial officer of the Company, is suspected to have misappropriated funds of Ajisen China Group Management Limited, a wholly-owned subsidiary of the Company (the "**Misappropriation Incident**"). Subsequent to the discovery of the Misappropriation Incident, the Company has conducted an internal review of the Misappropriation Incident (the "**Internal Audit**"). In addition, the Company has also engaged RSM Consulting (Hong Kong) Limited ("**RSM**"), an independent consultancy firm, to conduct an investigation into the Misappropriation Incident, and to conduct a review of the Company's internal control procedures and systems and make recommendations to the Board to address and rectify the weaknesses identified, if any. As at the date of this annual report, the investigation and review by RSM is still ongoing.

Based on the findings identified by the Internal Audit, the Audit Committee has convened a further committee meeting and discussed the Misappropriation Incident with the Management and the Board with a view of improving the Company's financial controls, internal control and risk management systems.

The following internal control deficiencies were identified:

- Prior to 2012, salary payment was made by handwritten cheques to the Group's Hong Kong executives and employees, which resulted in the Group being susceptible to senior members of the Group seeking to exert his executive authority to initiate unauthorised payments.

- There were no checks and balances in processing cheques issued and signed for salary payment to the Group's Hong Kong employees.

- Different bank accounts were used for different operating companies in Hong Kong which increased the risk of possible misappropriation.

In light of the internal control deficiencies identified, the Company confirmed that the following remedial measures have been implemented:

- The Group has changed its salary payment method from issuing handwritten cheques to automatic bank transfer.

- With effect from December 2018, the Group has enhanced its payroll approval procedures to put in place proper checks and balances. Under the current enhanced procedures, the Human Resources and Administrative Senior Officer shall be responsible for computing the salary amounts, which will be independently checked and confirmed by the Human Resources and Administrative Manager and subsequently approved by the responsible Executive Director. Upon obtaining all necessary approvals, payment will be made by the Group through automatic bank transfer to the employees' payroll accounts.

- A new protocol for the authorisation and signing of bank cheques has been adopted.

- The Group has consolidated multiple bank accounts of its operating companies to one central bank account as treasury account for monthly clearing purposes for the purpose of more effective fund management.

- The Group has adopted the China's Manual of Business Risks and System of Major Internal Control Procedures for its Hong Kong operations. Appropriate training will be conducted to introduce the new manual to all department heads.

The Company will further review and re-assess the Company's internal control procedures and systems once the investigation and review report from RSM is available.

Risk Management and Internal Control

The Board strives to cultivate and disseminate a good internal control and risk management culture of the Company and its subsidiaries by:

(i) identifying and assessing relevant risks, considering and giving approval to necessary control activities proposed by executive Directors in accordance with risk assessments, to rationalize the control environment so as to lower operational risks but without impeding operating efficiency;

(ii) ensuring constantly updating information and coordinated sharing of information;

(iii) exercising appropriate levels of supervision to ensure the effectiveness and efficiency in the performance of various functions and activities of the Group;

(iv) establishing and reviewing internal control measures for minimising and eliminating identified risks; and

(v) seeking advice from external consultants for the enhancement and maintenance of the Group's internal control system.

The executive Directors, with the coordination of the management of the Group, strive to develop, implement and maintain an internal control and risk management system by conducting on-going business reviews; evaluating significant risks faced by the Group; formulating appropriate policies, programmes and authorization criteria; conducting business variance analyses of actual result versus business plan; undertaking critical path analyses to identify the impediments in attaining the corporate goals and initiating corrective measures; following up on isolated cases; identifying inherent deficiencies in the internal control system; and making timely remedies and adjustments to avoid recurrence of problems.

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Board has entrusted the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covered all material controls, including financial, operational and compliance controls.

Under the Company's risk management and internal control structure, the Management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

The main features of risk management and internal control structure of the Company are as follows:

- Heads of major operation units or departments manage risks through identification and mitigating risks identified in accordance with the internal guidelines approved by the Board and the Audit Committee;
- The Management ensures appropriate actions are taken on major risks affecting the Group's businesses and operations; and
- Internal auditors provide independent assurance to the Board, the Audit Committee and the Management concerning the effectiveness of risk management and internal control systems.

Up to the date of this annual report, major works performed by the Management in relation to risk management and internal control include the following:

- each major operation unit or department was responsible for daily risk management activities, including identifying major risks that may impact on the Group's performance; assessing and evaluating the identified risks according to their likely impacts and the likelihood of occurrence; formulating and implementing measures, controls and response plans to manage and mitigate such risks;
- the Management, together with the finance department, monitored and reviewed the risk management and internal control systems on an ongoing basis and reported to the Audit Committee regarding the status of the systems;
- the Management periodically followed up and reviewed the implementation of the measures, controls and response plans to major risks identified in order to make sure that sufficient attention, monitor and responses were paid to all major risks identified;

- the Management reviewed the risk management and internal control systems periodically to identify process and control deficiencies, and designed and implemented corrective actions to address such deficiencies;

- the Management ensured appropriate procedures and measures such as safeguarding assets against unauthorized use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications, etc. are in place; and

- in light of the Misappropriation Incident, the Management reviewed the Internal Audit and discussed the findings with the Audit Committee and the Board, and followed up on the remedial measures to improve the internal control system are implemented immediately.

The internal audit function of the Company monitored the internal governance of the Company and provided independent assurances as to the adequacy and effectiveness of the Company's risk management and internal control systems. The internal audit reports were submitted to the Audit Committee. The Audit Committee reviewed the draft reports and has made the necessary recommendations to the Board to put in place the mechanism for implementing an effective internal audit function. The Board has accepted the recommendations of the Audit Committee.

In light of the Misappropriation Incident, the Company has engaged RSM to conduct an investigation into the Incident, and to conduct a review of the Company's internal control procedures and systems and make recommendations to the Board to address and rectify the weaknesses identified, if any. The Company will further review and re-assess the Company's internal control procedures and systems once the investigation and review report from RSM is available. The Company also engaged RSM to review the internal audit process of the Company for the year 2019.

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Senior executives of the investor relations, corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior executives and confined on "need-to-know" basis. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed. Other procedures such as pre-clearance on dealing in the Company's securities by Directors and designated members of the Management, notification of regular blackout period and securities dealing restrictions to Directors and employees, and identification of project by code name have also been implemented by the Company to guard against possible mishandling of inside information within the Group.

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee reviewed such arrangement regularly and ensured that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the reporting period and up to the date of this annual report, the Audit Committee reviewed the effectiveness of the risk management and internal control systems of the Company, in conjunction with the impact arising from the Misappropriation Incident. The annual review included works such as (i) review of reports submitted by the external professional firm regarding the implementation of the risk management and internal control systems, as well as the respective internal audit findings; (ii) periodic discussions with the Management and senior executives regarding the effectiveness of the risk management and internal control systems and the works of the internal audit function. Such discussions include the adequacy of resources, in conjunction with the impact arising from the Misappropriation Incident, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions; (iii) evaluation on the scope and quality of the Management's ongoing monitoring of the risks management and internal control systems; (iv) review of the effectiveness of the internal audit function to ensure coordination within the Group and between the Company's internal and external auditors and to ensure the internal audit function is adequately resourced and has appropriate standing within the Group; and (v) provision of recommendations to the Board and the Management on the scope and quality of the Management's ongoing monitoring of the risk management and internal control systems, in conjunction with the impact arising from the Misappropriation Incident.

On the basis of the aforesaid, save for the internal control deficiencies identified in the Internal Audit, the Audit Committee was not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal control of the Company.

The Whistle-Blowing Policy (the "WBP") was set up on 17 April 2009. The WBP aims to provide an avenue for employees to raise concerns and reassurance that they will be protected from reprisals or victimization for whistleblowing in good faith.

The Board believes that, in the absence of any evidence to the contrary save for the internal control deficiencies identified in the Internal Audit, the system of internal controls maintained by the Group throughout the year ended 31 December 2018 and up to the date of this annual report provides reasonable assurance against material financial misstatements or loss, and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

The Board, through the reviews made by the Audit Committee and the recommendation on the remedial measures taken up to address the internal control deficiencies arising from the Misappropriation Incident, had reviewed the effectiveness and the adequacy of the internal control systems of the Group and considered them to have been implemented effectively. Considerations were also given to the adequacy of resources, qualifications, and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Directors' Responsibility for the Financial Statements

The Directors understand and acknowledge their responsibility for ensuring that the financial statements for each financial year are prepared to give a true and fair view of the state of affairs, profitability and cash flow of the Group in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In preparing the financial statements of the Group for the year ended 31 December 2018, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The Directors are responsible for maintaining proper accounting records which reflect with reasonable accuracy, the state of affairs, operating results, cash flows and equity movement of the Group at any time. The Directors confirm that the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The auditor's statement about their reporting responsibilities on the financial statements is set out on pages 53 to 57 of this annual report.

Auditor's Remuneration

The Group's independent external auditor is DTT. The remuneration for the audit and non-audit services provided by DTT to the Group during the year ended 31 December 2018 was approximately as follows:

Type of Services	**Amount** *(RMB'000)*
Audit	2,500
Non-audit services *(Note)*	650
Total:	3,150

Note: Non-audit services include 2018 interim review.

Company Secretary

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company engages Ms. Ng Sau Mei, an associate director of TMF Hong Kong Limited (a company secretarial services provider), as the company secretary of the Company. Her primary contact person at the Company is Mr. Poon Ka Man, Jason, the executive Director.

During the year ended 31 December 2018, Ms. Ng has undertaken more than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Communication with Shareholders and Investor Relations

The Board recognizes the importance of good communications with all shareholders. The 2018 AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairmen of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee and the external auditor present at the 2018 AGM held on 23 May 2018 to answer shareholders' questions. The Company's forthcoming AGM will be held on 23 May 2019 (the "2019 AGM").

A key element of effective communication with shareholders and investors is prompt and timely dissemination of information in a transparent manner in relation to the Group. The Company has announced its inside information, announcement, interim and annual results in a timely manner according to the Listing Rules.

A shareholders' communication policy was adopted pursuant to the Code which aims at establishing a two-way relationship and communication between the Company and its shareholders. To promote effective communication, the Company maintains two websites at www.ajisen.com.hk and www.ajisen.com.cn where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Enquiries, comments and suggestions to the Board or the Company are welcome and can be addressed to 6/F, Ajisen Group Tower, Block B, 24-26 Sze Shan Street, Yau Tong, Kowloon with attention to Mr. Poon Ka Man, Jason.

Closure of register of members

In order to determine the shareholders who are entitled to attend the 2019 AGM, the register of members of the Company will be closed from 20 May 2019 to 23 May 2019 (both days inclusive), during which period no share transfers will be registered.

In addition, in order to determine the shareholders who are entitled to receive the final dividend for the year ended 31 December 2018, the register of members of the Company will be closed from 29 May 2019 to 3 June 2019 (both days inclusive), during which period no share transfers will be registered.

In order to qualify for attending and voting at the 2019 AGM, and the entitlement for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 17 May 2019 and 28 May 2019 respectively.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution is proposed for each issue at shareholders' meetings, including the election of individual directors.

All resolutions put forward at shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholders' meeting. At the 2018 AGM, all resolutions were passed by poll by the shareholders of the Company.

Pursuant to article 64 of the Articles of Association, any shareholder holding not less than one-tenth of the paid up share capital of the Company carrying the right of voting at general meetings of the Company has statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders by sending to the Board or the company secretary of the Company at the principal place of business of the Company in Hong Kong a written request for such general meeting duly signed by the shareholders concerned together with the proposed agenda items and such meeting shall be held within two months of the deposit of such requisition. Shareholders also have the right to propose a person for election as a Director, the procedures are available on the websites of the Company and the Stock Exchange.

Dividend Policy

Pursuant to code provision E.1.5 of the CG Code, the Company has formulated and adopted a dividend policy (the "Dividend Policy") which aims to set out the principles and guidelines in recommending or declaring dividends to the shareholders.

Principles and Guidelines

1. The Board has the discretion to declare and distribute dividends to the shareholders subject to the requirements of the Articles of Association, the laws of Cayman Islands, and other any applicable laws, rules and regulations and the Policy.

2. The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting working capital requirements of the Company.

3. The Board shall take into account the following factors of the Group when considering the declaration or recommendation of dividends:

   - the Company's actual and expected financial performance;

   - the Group's working capital requirements, capital expenditure requirements/plans and future expansion plans;

   - the Group's liquidity position;

- retained earnings and distributable reserves of the Company and each of the subsidiaries of the Group;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- taxation consideration;
- the shareholders' interests;
- the general economic conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Group; and
- other factors that the Board may consider relevant.

4. The Company in annual general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

5. The Board may pay half-yearly or at other suitable intervals to be settled by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the financial conditions and the profits of the Company justify the payment.

6. The Board may from time to time declare any special dividends of such amounts and on such dates and out of such distributable funds of the Company as it thinks fit.

7. The Company may declare and pay dividends by way of cash or an allotment of shares credited as fully paid or by other means that the Board considers appropriate.

8. Any unclaimed dividend shall be forfeited by the Board and shall revert to the Company in accordance with the Articles of Association.

9. For the avoidance of doubt, the Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Review of the Policy

The Board will review the Dividend Policy from time to time and may adopt changes as appropriate when necessary.

Change in Constitutional Documents

During the year ended 31 December 2018, there is no significant change in constitutional documents of the Company.

Looking Forward

The Company will review its corporate governance practices regularly and the Board endeavors to implement necessary measures and policies to ensure the compliance with the Code introduced by the Stock Exchange.

Environmental, Social and Governance Report

Corporate Social Responsibility

The Group has been actively fulfilling its social responsibility and taking part in various public benefit activities, thus set a good enterprise social image. As of 2018, the Group recruited a total of 91 disabled people in Shanghai, Beijing and Tianjin through a recruiting campaign of "Fallen Angel (折翼天使)" to solve their living problem and help them walk out of their home to join the big family "Ajisen" and then integrate into the society, thus offering them a way to realise their value of life. As integrated parts of the Group, our Hong Kong company actively perform their responsibility as a responsible enterprise, committing to giving back and contributing to society.

After over 20 years of operation on the brand of "Ajisen Ramen" from the first restaurant established in Shenzhen in 1996 to the present 766 restaurants as well as operation rights in over 8,000 airports in the world, Ms. Poon Wai, the Chairman and Chief Executive Officer of the Group has accumulated a rich experience in catering operation and better serving customers. In January 2018, Ajisen (China) Holdings Limited was awarded the membership certificate issued by China Chain Store & Franchise Association; In April 2018, Ajisen Ramen was awarded the "Best Catering Brand Award" issued by China Smart Catering Innovation International Summit; In May 2018, Ajisen (China) Holdings Limited was awarded the Certificate of Honor of "Outstanding Contribution Enterprise of Chinese Catering Industry for the 40 Years of Reform and Opening up" issued by the China Cuisine Association; In December 2018, Ajisen Ramen was awarded the Certificate of Honor of "2018 Brand Power of Chinese Catering Industry Top 100" issued by the 2018 Brand Power of Chinese Catering Industry Summit Organizing Committee. Ms. Poon Wai was re-elected as the vice chairman of both China Hotel Association and China Cuisine Association in 2018.

Food and Occupational Safety

In implementation of its overall development strategy, the Group strictly followed the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, complied with relevant national laws and regulations and adhered to law-abiding and honest operation. As a company listed on the Stock Exchange, the Group strictly followed the Listing Rules, complied with the listing principles and the requirements on information disclosure by listed companies.

In respect of operation of restaurants, we strictly complied with Consumer Protection Law, observed the laws and regulations such as Food Safety Law of the People's Republic of China, Advertisements Law of the People's Republic of China and Measures for the Management of Food Business License (《食品經營許可管理辦法》), and the subsidiary in Hong Kong also strictly followed the Food Safety Ordinance of the Hong Kong Special Administrative Region. The Group organised employees to study the relevant laws and regulations, and further standardised and optimised the management process to do the business in compliance with regulations.

Food safety is the priority of the Group. The Group actively promotes direct procurement and guarantees the quality of products from the source. The Group's ERP system was connected with the traceability system of Shanghai Food and Drug Administration (FDA). The materials registered in the system can be traced back to its date of manufacture, product number, shelf life and other information. Large-scale purchase data is directly input into the system, guaranteeing the safety of food materials at the source. The Group adopts a scientific management mode, including large scale direct purchase, standardised operation, intensive production, together with the cold-chain production and delivery technology centered on central kitchens. The soup making process in central kitchen is comprised of material selection, dicing, cooking, evaporation, packaging, distribution, and finishing. All these seven steps are under standardised control over time, temperature, measurement, sequence, etc., to better ensure the stability of gourmet meals. Through the integrated production mode, the standardised production of bone soup is realised, which improves the production efficiency, ensures consistency of product taste, and guarantees safety of food material processing, ex-warehouse and delivery. The Group has always applied modern technologies to guarantee the safety and nutrition of the food materials and food.

The Group has always attached importance to the rights and interests of consumers, is committed to safeguarding the correct transmission of product information, and has continuously improved the solution mechanism and process for consumers' rights and interests. When transmitting information about the corporate and products, the Group makes use of reasonable advertisements based on the needs of consumers in compliance with the state laws and regulations.

In order to standardise the service, the Group further optimised the excellent operation and service system, and proposed the 6T excellent site management method based on the 5S method of Japan and 5S management system of Hong Kong. The Group constantly perfected the system construction, and launched a 7S management system to the staff, equipment, materials, operating methods and environment, etc. respectively. The Group specified the work network and responsible officers on field management to realise a post responsibility system.

Employees are valuable assets of the Group, the Group values the occupation safety of staff. In addition to strictly comply with the Regulation on Work Injury Insurance, we also provide regular training on production safety to operation management personnel and staff in workshops at factories. The Group has further modified and refined the Guidance on Production Safety for factories and central kitchens. On the basis of comprehensive and careful analysis of the operation specifications, hazardous parts, extent of hazard and precautions of each machine and equipment, one-on-one training was provided to the production equipment operators. In 2018, the trainings involved 30 types and 177 sets of machinery and equipment and with 300 participants accumulatively. In addition, regular trainings on occupational safety were also provided to logistic support employees to create a healthier, safer and more comfortable work environment for staff.

Environmental Protection Measures

The Group stresses the protection of environment and resources and proactively promotes the idea of green and low carbon. We have made efforts to reduce the impact of business operations on the environment, continuously update technologies and equipment, and use energy-saving and environmentally friendly appliances and stove equipment. We regularly conduct environmental assessments to evaluate our environmental issues and related laws and regulations that may have a significant impact on our business operations. Through the assessment, we have identified wastewater discharge, exhaust emissions, noise emissions, and energy consumption as significant issues for which we need to take regulatory action. Due to the nature of our business, the hazardous and non-hazardous waste we produce has insignificant impact on the environment.

In terms of treatment of wastewater discharge, the central kitchen strictly abides by the Wastewater Quality Standards for Discharge to Municipal Sewers (GB/T31962-2015) and Discharge Standard of Water Pollutants for Meat Packing Industry (GB13457-92), and the wastewater produced after raw material washing, water produced by filter press, wastewater produced after equipment washing, and wastewater produced after floor washing, upon being treated via our wastewater treatment device, will be included into municipal water pipe network together with the domestic sewage and be discharged in a collective manner after satisfying the discharge standards. During the reporting period, the Group's central kitchen discharged a total of approximately 35,000 tonnes of sewage, with all indicators meeting the standards.

In terms of treatment of exhaust emission, the boiler in the central kitchen uses 0# light diesel fuel in strict compliance with the emission limits set out under the Emission Standard of Air Pollutants for Boilers (DB31/387-2014) and its first amendment as well as the Integrate Emission Standards of Air Pollutants (DB31/933-2015). The concentration and Ringelmann number and other indicators of the substances produced after its combustion including the smoke and nitrogen oxides, SO2 reach the standards.

In respect of noise emission, the noise emission at the plant boundary in the daytime and at night has strictly conformed to the Class III standard under the Standard for Noise Emission at the Plant Boundary Environment of the Industrial Enterprises (GB12348-2008). The results of monitoring meet the standard during the reporting period.

In addition, the central kitchen has implemented the following environmental protection measures:

- Participated in the waste oil recycling scheme, under which qualified recyclers will collect waste oil and then convert it into renewable energy;

- The fume and exhaust gas produced during the baking process is purified and treated with the fume purification device, and device with low noise features are adopted for various types of machinery and equipment; and

- The cooling water recovery system has been installed in the workshop to recover the water after being used for cooling the product and re-use to wash pallets.

The regional lighting system has been implemented by the head office in Shanghai, Hong Kong branches, and subsidiaries, factories and restaurants in all the places to turn off illumination for certain unoccupied areas of individual region, thus to reduce unnecessary wastage of electricity. Moreover, the Group office proposed paperless office, double-sided paper utilisation and waste paper recycling, to make full use of each sheet of paper and protect forest resources. During the reporting period, a total of 80 tonnes of packaging compound bags were used for packaged noodle production by the Group. The Group encourages the fully utilisation of communication systems among employees to avoid unnecessary business trips. On the premise of ensuring that hygiene of food and tableware meet relevant standards, the use of water resources will be reduced to minimise the consumption of natural resources. The Group does not have any issue in sourcing water that is fit for purpose. The electricity and water consumption of stores and offices in 2018 were approximately RMB98.9215 million, less than last year.

Energy Consumption (Central Kitchen)

	Consumption
Water (tonne)	56,632
Electricity (kWh)	5,176,603
Oil (litre)	219,460

"Ajisen Ramen", a restaurant brand of the Group, won the honorary title of "Green Restaurant" in the rating of "Green Restaurant" organised by Shanghai Restaurants Cuisine Association. Green Restaurant aims at reminding people of enhancement of environmental awareness; control and reduction of environmental disruption; and adoption of scientific processing method to protect the nutrition of food materials in order to provide simple and natural catering services to customers. The award granted to "Ajisen Ramen" is the affirmation and praise for the Group's stress on environmental protection and initiative for green and low carbon.

Relations with Suppliers, Customers and Employees

Relationship with Suppliers

In order to ensure food safety, the Group persisted on the supply chain management mode featured by collective purchasing, production and delivery, and gave priority to the famous enterprises in the industry when selecting suppliers, requiring them to have qualified qualifications and provide product acceptance reports. In addition, our purchasing and quality control officers often visit food processing factories and examine the production processes and technology to verify whether suppliers have control system for food safety and independent research and development capability, and trace back the products manufactured by suppliers to strictly control product quality.

In respect of examination and verification of suppliers' qualifications, the suppliers must hold the government approved licences. The goods received from suppliers are required to be in compliance with the relevant hygiene and sanitary regulations. Suppliers should submit the health certificates and the results of laboratory tests for the goods on a regular basis. Evaluation on any suppliers for the initial provision of food merchandise shall be conducted by the procurement and quality control department. Such evaluation shall be in compliance with standards regarding food safety, performance of suppliers, hygiene documentary evidences, business reputation, sustainability and corporate social responsibility. The Group will conduct irregular review on the continued suppliers, including making an inspection tour to the production workshops of the suppliers.

Relationship with Customers

As a catering group mainly engages in operation of Japanese style fast casual restaurants, we have always given top priority to the interests of our consumers. To ensure continuous improvement of the quality of products and services, we regularly conduct internal and external market surveys to interact with consumers to deepen our understating of market demands, so as to gain market insights. We normally update our stores menu twice a year to timely give consumers fresh products and innovative ideas. Our customer service hotline is able to send the feedback to the management immediately and the same could be handled promptly. The Group launches promotion events at regular intervals to give back to our consumers. In the beginning of 2016, the Group introduced the "Zhangbei Smart Store System" (掌貝智能店舖系統) and established a customer relationship management system, while in December 2018, it officially launched the brand new Ajisen membership level rights, which further enhanced the communication and interaction with customers, so as to achieve accurate marketing while better satisfying customers' demands, serving customers and improving the Group's competitiveness in the market.

Relationship with Employees

The Group upholds the idea that employee is one of the key elements to the success of our business. With the aim of safeguarding the basic interests of employees, we strictly comply with the Labour Law of the People's Republic of China, the Contract Law of the People's Republic of China and Employment Ordinance of Hong Kong Special Administrative Region, and proactively implement minimum wages, gender equality, statutory holidays, reasonable working hours, the prohibition of force labor and child labor as well as enforcing anticorruption practices.

The basic benefits provided for employees include salary, bonuses, communication subsidies, and subsidies for business trip. All employees are covered with social security, five insurances and the housing provident fund. In addition, the Group provides newly recruited employees with medical examinations. In order to fully safeguard the interests of the Company and its employees in the event of accidental injury during the course of performing their duty, the Company has insured employer's liability insurance for all employees. The Company also provides free lunches for employees working in the restaurants and the factories. The office employees follow the standard working hour system, which stipulates employees work for five days a week, eight hours a day, and are eligible to two days off at the weekends and statutory holidays.

The Group's Human Resources Department makes prompt adjustments to the relevant employment and administrative policies in accordance with the latest national laws and regulations. As at 31 December 2018, the Group has 11,609 employees, in which, 7,065 were female employees and 4,544 were male employees.

The Group values employee's career development and talent cultivation, endeavours to provide extensive growth room to employees and facilitate them to achieve their own values. The Group established Ajisen Business School in 2016. Since its establishment, Ajisen Business School has organised trainings in 35 phrases, with 4,103 participants.

The Group has made effective manpower allocation in accordance with annual manpower planning to ensure that suitable talents are identified on a merit basis from both internal and external sources of the Company and provide suitable career paths and opportunities for them. The personnel policies are also reviewed periodically to strike the balance of human resources in all aspects. In particular, the compensation and benefits are adjusted on a regular basis to meet relevant needs.

Besides, the Group attaches great importance to the balance of work and life of its staffs and the Company offers dinner at each important festival during the year, organises cultural activities and other outdoor activities regularly, such as monthly summing-up meeting of cultural fashion icon, monthly birthday parties for staffs, outdoor hiking, wild hiking, singing party during Christmas and annual dinner etc. to enrich staff's spare time life.

Anti-corruption

At the employees' level as well as the suppliers' level, the Group strictly complies with the state laws and regulations and has formulated internal anti-corruption guidelines.

Article 11 of the Code of Conduct of Ajisen prohibits the employees of the Group from intervening in bribery anywhere, and requires them to strictly abide by the Company Law of the People's Republic of China, the Law against Unfair Competition of the People's Republic of China and the Anti-money Laundering Law of the People's Republic of China and other laws in respect of corruption and bribery.

Article 12 of the Code of Conduct of Ajisen requires that employees of the Group shall not provide or accept gifts, money or entertainment that may cause undue influence while performing their duty.

Article 13 of the Code of Conduct of Ajisen requires that employees of the Group shall not use their authority to receive any forms of rebates, sponsorships, and banquets from suppliers.

Article 14 of the Code of Conduct of Ajisen requires that employees of the Group shall treat all customers and suppliers impartially and not misuse or disclose improperly to any third party any confidential information of any customers and suppliers for the purpose of preventing unfair competition from other suppliers.

The Group also organises anti-corruption briefings and training courses from time to time to ensure that employees and suppliers understand how to avoid bribery, conflicts of interest and receipt of gains. The Group encourages employees to report any corruption case. During the reporting period, the Group or its employees were not involved in any legal cases related to corruption.

Directors and Senior Management

Executive Directors

Poon Wai (潘慰), aged 63, is the founder of the Group. She is the Chairman and Chief Executive Officer of the Company. She is responsible for the overall management, including critical decision-making and planning for the strategic activities of the Group. As the founder of the Company, Ms. Poon has been playing an important role in the development of the Group since its inception in 1995. Ms. Poon is an experienced entrepreneur who has over 20 years' experience in the F&B industry. Prior to establishing the Company, Ms. Poon was engaged in trading Asian food products in the US and Hong Kong. Ms. Poon is particularly well versed and experienced in specialty foods from northern and southern regions of China. Ms. Poon currently serves as the vice president of China Hotel Association, special vice president of China Cuisine Association (中國烹飪協會), director of China Association of Enterprises and China Entrepreneur Association. Meanwhile, Ms. Poon is also the vice chairman of Shanghai Restaurants Cuisine Association as well as the vice president of Shanghai Commercial Enterprise Management Association. Ms. Poon was awarded Ernst & Young Entrepreneur of The Year for Hong Kong/Macau Region in October 2007. Ms. Poon was awarded "the Most Influential Entrepreneur in Chinese Restaurant Industry" (「中國餐飲最具影響力企業家」) by China Cuisine Association (中國烹飪協會) and "Contribution to Shanghai Restaurant Industry in 30 Years" (「上海餐飲三十年功勛人物獎」) by Shanghai Restaurants Cuisine Association in 2015. Ms. Poon is the sister of Mr. Poon Ka Man, Jason.

Poon Ka Man, Jason (潘嘉聞), aged 62, is the chief marketing officer of the Company and an executive Director. He has been an executive Director since 8 March 2007. He is responsible for the marketing of the Ajisen brand name and the design of the Group's chain restaurants. Mr. Poon has over 20 years of experience in construction and design. Mr. Poon also owns his own contracting and design firm in Hong Kong, specializing in the design and renovation of offices, commercial retail spaces, factories and residential properties. Mr. Poon is the brother of Ms. Poon Wai.

Non-executive Director

Katsuaki Shigemitsu (重光克昭), aged 50, has been a non-executive Director since 8 March 2007. Mr. Shigemitsu is also a shareholder and director of Shigemitsu, the Group's franchisor. In addition, Mr. Shigemitsu has served as a non-executive director of a Singapore-listed company, namely Japan Food Holdings Limited since November 2008. Mr. Shigemitsu has over 15 years of experience in the F&B industry. After his graduation in 1991, Mr. Shigemitsu joined his family's business, Shigemitsu. Mr. Shigemitsu commenced his work as a restaurant manager in an Ajisen restaurant in Japan. Subsequently, Mr. Shigemitsu has assumed several senior management positions in Shigemitsu. In 1995, he was appointed as the vice-chairman of Shigemitsu. In 1997, he was appointed as the chairman of Shigemitsu. Mr. Shigemitsu holds a degree in structural engineering from the Kumamoto Institute of Technology (熊本工業大學).

Independent non-executive Directors

Jen Shek Voon (任錫文), aged 72, is an independent non-executive Director. He is a sole proprietor of Jen Shek Voon, PAS, a Chartered Accountant and Public Accounting Singapore firm in Singapore that specializes in international and regional financial and business advisory services. Mr. Jen currently holds a certificate of registration issued by the Accounting and Corporate Regulatory Authority of Singapore, authorizing him to practice as a public accountant in Singapore. Mr. Jen also sits as an independent non-executive director of the boards of directors of a number of non-publicly listed companies in Singapore, and, on publicly listed companies in Malaysia and Hong Kong. Mr. Jen is a Fellow of the Singapore Institute of Directors. He holds a Bachelor of Accounting degree (Hons) from the University of Singapore and a M Comm (Hons) degree from the University of New South Wales. He is a Fellow of the Chartered Accountants Australia and NZ, the Association of Chartered Certified Accountants in the UK and a Chartered Tax Adviser of the Taxation Institute of Australia respectively, and a member of the Malaysian Institute of Accountants, ISACA (Information System Audit and Control Association) and a member of the British Computer Society.

Lo Peter (路嘉星), aged 63, has been an independent non-executive Director since 8 March 2007. Mr. Lo is a director of China Enterprise Capital Limited. Mr. Lo was the chairman and an executive director of China Outfitters Holdings Limited (stock code: 1146) from March 2010 to June 2018 and resigned as the chairman and non-executive director of Sino Distillery Group Limited (now known as China Beidahuang Industry Group Holdings Limited) (stock code: 0039) in May 2013, companies listed on the Stock Exchange. Mr. Lo has more than 20 years of experience in operating businesses in the PRC, including but not limited to trade and investment in various industries such as leather goods, power plants, auto manufacturers, medical equipment and beer brewery. Mr. Lo is also an independent non-executive director of Uni-President China Holdings Ltd (stock code: 0220), a company listed on the Stock Exchange. Mr. Lo holds a bachelor degree in Mathematical Economics and Econometrics from the London School of Economics and Political Science.

Wang Jincheng (王金城), aged 64, has been an independent non-executive Director since 9 September 2008. Mr. Wang has over 35 years extensive experience in the hospitality industry in the PRC. Since 2003, Mr. Wang has served as the president of Shanghai Baolong (Group) Co. Ltd, the main business of which includes hotel and hostel services, food and beverage services and rental car services in the PRC. He has been a director of the World Cuisine Association since 2003, and is currently the chairman of the professional committee of career managers of the China Cuisine Association and the vice-chairman of both the Shanghai Cuisine Association and the Shanghai Restaurants Association. He was awarded Senior Chinese Catering Manager in February 2010, a Distinguished Entrepreneur of the Food & Beverage Industry of China in 2007 and a Distinguished Commercial Venturing Entrepreneur of China in 2006. Mr. Wang was a deputy to 5th and 6th National People's Congress of the Baoshan District of Shanghai, the PRC.

Report of the Directors

The Directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2018.

Principal activities

The Company is a FCR chain operator selling Japanese ramen and Japanese-style dishes in Hong Kong and the PRC. An analysis of the Company's performance for the year by geographical segments is set out in note 6 to the consolidated financial statements.

Business Review

A review of the business of the Group during the year ended 31 December 2018, an analysis of the Group's performance during the year using financial key performance indicators, a discussion on the Group's future business development and a description of the principal risks and uncertainties that the Group may be facing are contained in the Management Discussion and Analysis on pages 6 to 11 of this Annual Report. The Company's environmental policies and performance, and the Group's relationships with its employees, customers and suppliers are contained in the Environmental, Social and Governance Report on pages 31 to 36 of this Annual Report.

Results and appropriations

The results and appropriations of the Group are set out on page 58 to page 61 of the consolidated financial statements respectively.

Dividend

The Board recommended the payment of a final dividend of RMB0.1 (HK12 cents) per ordinary share for the financial year ended 31 December 2018.

Share capital

Details of the movements in share capital and share options of the Company during the year are set out in notes 31 and 32 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group are set out on page 62 to page 64 of the consolidated financial statements.

Distributable reserves

As at 31 December 2018, the Company has no reserve available for distribution.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 42 to the consolidated financial statements.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

Borrowings

Details of the borrowings of the Group are set out in note 30 to the consolidated financial statements.

Pre-emptive rights

There are no pre-emptive or similar rights under the Cayman Islands law or the Articles of Association which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Major customers and suppliers

The aggregate sales attributable to the Group's five largest customers were less than 5.5% of the Group's total turnover. The purchase from the Group's largest supplier, Shigemitsu Industry Co., Ltd. accounted for approximately 5.3% of the Group's total purchase for the year and the purchase from the five largest suppliers of the Group accounted for approximately 19.4% of the Group's total purchase.

Save for Mr. Katsuaki Shigemitsu, the non-executive Director, who owns an approximately 44.5% interest in Shigemitsu Industry Co., Ltd. (also known as Shigemitsu Kabushiki Kaisha or Shigemitsu Sangyo Co. Ltd.), a company incorporated in Japan on 5 July 1972, which is the franchisor of the Company (details of which are set out on page 49 to page 50 of this annual report), none of the Directors or their respective associates, or the Shareholders who, to the knowledge of the Directors, own more than 5% of the issued shares of the Company, has any interest in any of the five largest customers or the five largest suppliers of the Group.

Donations

The Company did make RMB6,848 charitable and other donations during the year under review (2017: RMB3,115).

Purchase, sale or redemption of the Company's listed securities

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

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 152 of this annual report.

Directors

The Directors of the Company during the year and up to the date of this annual report are:

Executive Directors:

Ms. Poon Wai *(Chairman and Chief Executive Officer)*
Mr. Poon Ka Man, Jason

Non-executive Director:

Mr. Katsuaki Shigemitsu

Independent Non-executive Directors:

Mr. Lo Peter
Mr. Jen Shek Voon
Mr. Wang Jincheng

All the Directors were first appointed on 8 March 2007, except Ms. Poon Wai who was appointed on 6 April 2006 and Mr. Wang Jincheng who was appointed on 9 September 2008.

The biographical details of the Directors and senior management are set out under the section "Directors and Senior Management" of this annual report.

In accordance with Article 108 of the Articles of Association, Mr. Lo Peter and Mr. Jen Shek Voon shall retire by rotation, and being eligible, have offered themselves for re-election at the forthcoming AGM.

Confirmation of independence of independent non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers that Mr. Lo Peter, Mr. Jen Shek Voon and Mr. Wang Jincheng are still independent.

Directors' service contracts

Each of Ms. Poon Wai and Mr. Poon Ka Man, Jason, being the executive Directors, has entered into a service contract with the Company for a term of three years commencing from 30 March 2007, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other.

Each of Mr. Katsuaki Shigemitsu, being the non-executive Director and Mr. Lo Peter and Mr. Jen Shek Voon, being the independent non-executive Directors, has entered into a letter of appointment with the Company for a period of two years commencing from 8 March 2007, subject to retirement by rotation in accordance with Article 108 of the Articles of Association, which may be terminated according to the Articles of Association.

Mr. Wang Jincheng, being an independent non-executive Director, has entered into a letter of appointment with the Company for a term of two years commencing from 9 September 2008, subject to retirement by rotation in accordance with Article 108 of the Articles of Association, which may be terminated according to the Articles of Association.

None of the Directors standing for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than the normal statutory compensation.

Directors' and Chief Executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong, Chapter 571 of the laws of Hong Kong ("the SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

(i) Interests and short positions in the shares of the Company

Name of director	**Capacity and nature of interest**	**Number of shares** *(Note 1)*	**Approximate % of shareholding**
Ms. Poon Wai	founder of a discretionary trust *(Note 2)*	480,123,041 (L)	43.99%
	beneficial owner	38,848,347 (L)	3.56%
Mr. Poon Ka Man, Jason	beneficial owner	2,500,000 (L)	0.23%
Mr. Katsuaki Shigemitsu	beneficial owner	950,000 (L)	0.09%
	interest of controlled corporation *(Note 3)*	31,425,380 (L)	2.88%
Mr. Jen Shek Voon	beneficial owner	95,000 (L)	0.01%
Mr. Lo Peter	beneficial owner	75,000 (L)	0.01%

Notes:

1. The letter "L" denotes the Director's long position in such shares.

2. The 480,123,041 shares were held by Favor Choice Group Limited ("Favor Choice"), which is an investment holding company wholly owned by Anmi Holding Company Limited ("Anmi Holding"). Anmi Holding is incorporated in the British Virgin Islands and its issued share capital is wholly owned by Anmi Trust, which is founded by Ms. Poon Wai. Ms. Poon Wai is an executive Director and the CEO.

3. Among the 31,425,380 shares, 10,604,251 shares were held by Shigemitsu Industry Co. Ltd., and 20,821,129 shares were held by Wealth Corner Limited. The aforesaid companies are respectively owned as to approximately 69.89% and 100% by Mr. Katsuaki Shigemitsu, a non-executive Director.

(ii) Interests and short positions in underlying shares of equity derivatives of the Company

Name of director	Capacity and nature of interest	Description of equity derivatives	Number of underlying shares *(Note 1)*
Mr. Jen Shek Voon	beneficial owner	share option *(Note 2)*	200,000 (L)
Mr. Lo Peter	beneficial owner	share option *(Note 2)*	100,000 (L)
Mr. Wang Jincheng	beneficial owner	share option *(Note 2)*	137,500 (L)
Mr. Katsuaki Shigemitsu	beneficial owner	share option *(Note 2)*	100,000 (L)

Notes:

1. The letter ''L'' denotes the Director's long position in such shares.

2. The share options were granted under the share option scheme of the Company adopted on 8 March 2007.

(iii) Interests and short positions in the shares of the associated corporations

(1) Long position in the shares of Anmi Holding

Name of director	Capacity and nature of interest	Number of shares	Approximate % of shareholding
Ms. Poon Wai	founder of a discretionary trust	1	100% *(Note)*

Note: The entire issued share capital of Anmi Holding is owned by Anmi Trust, which is founded by Ms. Poon Wai.

(2) Long position in the shares of Favor Choice

Name of director	Capacity and nature of interest	Number of shares	Approximate% of shareholding
Ms. Poon Wai	founder of a discretionary trust	10,000	100% *(Note)*

Note: The entire issued share capital of Favor Choice is owned by Anmi Holding, which is wholly owned by Anmi Trust. Anmi Trust is founded by Ms. Poon Wai.

Save as disclosed herein, as at 31 December 2018, none of the Directors and chief executive of the Company, or any of their spouse, or children under eighteen years of age, has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations, recorded in the register required to be kept by the Company under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and short positions of substantial shareholders discloseable under the SFO

So far as is known to the Company, as at 31 December 2018, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following persons, other than a Director or the chief executive of the Company, were the substantial shareholders (within the meaning of the Listing Rules) of the Company and had the following interests or short positions in the shares or underlying shares of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares (Note 1)	Approximate % of shareholding
Favor Choice *(Note 2)*	beneficial owner	480,123,041 (L)	43.99%
Anmi Holding *(Notes 2 and 3)*	interest of controlled corporation	480,123,041 (L)	43.99%
HSBC International Trustee Limited *(Note 3)*	trustee	500,523,720 (L)	45.85%
Invesco Hong Kong Limited	investment manager	108,407,000 (L)	9.93%
Invesco Management S.A.	investment manager	54,737,000 (L)	5.01%

Notes:

1. The letter "L" denotes the substantial shareholder's long position in such shares.

2. The 480,123,041 shares were held by Favor Choice, which is an investment holding company wholly owned by Anmi Holding. Anmi Holding is incorporated in the British Virgin Islands and its issued share capital is wholly owned by Anmi Trust, which is founded by Ms. Poon Wai. Ms. Poon Wai is an executive Director and the CEO.

3. Among the 500,523,720 shares, HSBC International Trustee Limited (in its capacity as the trustee of Anmi Trust) is the legal owner of the entire issued share capital of Anmi Holding and Royal Century Investment Limited. Anmi Holding wholly owned Favor Choice which held 476,625,041 shares and Royal Century Investment Limited wholly owned Brilinda Hilltop Inc. which held 23,898,679 shares.

Save as disclosed herein, as at 31 December 2018, the Company had not been notified of any substantial shareholder (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' interests in transaction, arrangement or contract of significance

Save as disclosed in the sections headed "Continuing connected transactions" below, no transactions, arrangements or contracts of significance, in relation to the Group's business to which the Company or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in competing business

Save as disclosed in the prospectus of the Company dated 19 March 2007 (the "Prospectus"), none of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Each of Ms. Poon Wai, Mr. Poon Ka Man, Jason and Mr. Katsuaki Shigemitsu, who are Directors, has provided an annual confirmation in respect of the compliance with the non-competition undertaking given by her/him (as described in the Prospectus) (the "Non-competition Undertaking").

In addition to what was disclosed in the Prospectus, the INEDs had been made aware of the following facts relating to Ms. Poon Wai and Mr. Poon Ka Man, Jason's (the "Poons") prior interests in Itamae, a Japanese-style sushi bar, which was operated by Smart Wave Limited ("Smart Wave"):

(i) Despite the disposals of the Poons' beneficial ownership interests in Smart Wave prior to the listing of the Company as disclosed in the Prospectus and in compliance with the undertaking given by Mr. Poon Ka Man, Jason to the Company (the "Disposal Undertaking"), the names of the Poons remain on the register of Smart Wave as of now, since Mr. Cheng Wai Tao, Ricky ("Mr. Cheng"), the sole director of Smart Wave, has failed and/or refused to register the incoming shareholder, Fine Elite Group Limited ("Fine Elite") on the register of members of Smart Wave.

(ii) Subsequent to the Poons' disposals of their beneficial interest in Smart Wave, Fine Elite intended to bring legal proceedings on behalf of Smart Wave against Mr. Cheng for breach of fiduciary duties owed to Smart Wave (the "Proceedings"). Given that only a registered shareholder has locus standi to do so, Mr. Poon Ka Man, Jason agreed with Fine Elite that he would use his name to commence the Proceedings. The Proceedings were concluded at the Court of Final Appeal in 2016 and Mr. Cheng was adjudged liable to Smart Wave for breach of fiduciary duties.

(iii) In the Proceedings, Mr. Poon Ka Man, Jason only acted in a representative capacity for Smart Wave, and he personally has not received and will not receive any economic benefits from his involvement.

Having reviewed the information provided by the Poons and obtained separate legal advice from the Company's legal adviser, the INEDs were satisfied that Mr. Poon Ka Man, Jason had materially and substantively complied with the Disposal Undertaking and the Poons have materially and substantively complied with the Non-competition Undertakings insofar as the Poons' shareholding in Smart Wave is concerned, on the basis that:

(i) The Poons are merely holding the shares in Smart Wave as bare trustees, and have no equitable, beneficial or financial interest in, or control over, Smart Wave;

(ii) Since 2010, Smart Wave has ceased operation and no longer been operating any business, competing or otherwise;

(iii) The Poons have agreed to enter into a new deed on 13 March 2018 with Fine Elite and its beneficial owner to expressly covenant that all rights, benefits, dividends, obligations, and liabilities as attendant to the Poons' ostensible legal shareholding in Smart Wave would accrue to Fine Elite and its beneficial owner; and

(iv) The Poons have agreed to update the Company as and when they become aware of anything material relating to Smart Wave (including but not limited to updates in the annual confirmation of compliance with the Non-competition Undertaking to be given by them to the Company every year).

In addition, on 3 August 2017, the borrower of Mr. Katsuaki Shigemitsu repaid the loan to Mr. Katsuaki Shigemitsu by 1% equity interest of Itamae. Therefore, Mr. Katsuaki Shigemitsu has 1% interest in that company's shares since then.

Other than the above, the INEDs have also reviewed the compliance by Ms. Poon Wai, Mr. Poon Ka Man, Jason and Mr. Katsuaki Shigemitsu with the Non-competition Undertaking and any information that they may have provided regarding any investment and engagement by any of them in any F&B business (other than the Company's business, as disclosed in the Prospectus or as disclosed above), and the nature of such investment and engagement. In this connection, the INEDs have also confirmed that, as far as they can ascertain, there is no breach of any of Ms. Poon Wai, Mr. Poon Ka Man, Jason and Mr. Katsuaki Shigemitsu of the Non-competition Undertaking given by her/him.

Management contracts

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

Compliance with Corporate Governance Code

Details of the compliance by the Company with the "Corporate Governance Code" contained in Appendix 14 to the Listing Rules are set out in the Corporate Governance Report on page 12 to page 30 of this Annual Report.

Share option scheme

The previous share option scheme adopted pursuant to a resolution passed by the then shareholders on 8 March 2007 (the "2007 Share Option Scheme") had expired on 7 March 2017. In light of the expiry of the 2007 Share Option Scheme and in order to enable the Board to continue providing incentives and rewards to the eligible persons, a new share option scheme was adopted by the shareholders at the extraordinary general meeting of the Company held on 13 July 2017 (the "2017 Share Option Scheme").

The purpose of the 2017 Share Option Scheme is to enable the Company to grant options to the eligible participants in recognition of their contribution made or to be made to the Group. Under the 2017 Share Option Scheme, the Board may offer to grant options to any Director or employee, or any advisor, consultant, individual or entity who, in the opinion of the Board, has contributed or will contribute to the growth and development of the Group. The amount payable by a participant upon acceptance of a grant of options is HK$1.00.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the 2017 Share Option Scheme to an eligible participant in any twelve-month period shall not exceed 1% of the number of shares in issue unless (i) a circular is despatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to therein in general meeting; and (iii) the relevant eligible participant and its close associates or his associates if the eligible participant is a connected person abstain from voting on the resolution. The maximum number of shares which may be issued upon exercise of all options which may be granted under the 2017 Share Option Scheme and any other scheme(s) shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the 2017 Share Option Scheme, i.e. a total of 109,153,882 shares.

The subscription price in respect of options granted under the 2017 Share Option Scheme may be determined by the Board at its absolute discretion provided that it shall not be less than the higher of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

The 2017 Share Option Scheme will be valid and effective for a period of ten years, commencing from 13 July 2017. The remaining life of the 2017 Share Option Scheme is approximately eight years and four months.

At 31 December 2018, the number of shares in respect of which options under the 2007 Share Option Scheme and 2017 Share Option Scheme had been granted and remained outstanding was 15,313,000 shares and 4,600,000 shares, representing approximately 1.40% and 0.42% of the shares of the Company in issue as at 31 December 2018.

Total number of shares available for issue under the 2007 Share Option Scheme was 15,313,000 shares, representing approximately 1.40% of the shares of the Company in issue as at the date of this Annual Report.

Total number of shares available for issue under the 2017 Share Option Scheme was 109,153,882 shares, representing 10.00% of the shares of the Company in issue as at the date of this Annual Report.

Details of the share options granted under the 2007 Share Option Scheme and the 2017 Share Option Scheme are contained in note 32 to the consolidated financial statements and the movement during 2018 are as follows:

		Outstanding as at 1 January	Number of share options				Outstanding as at 31 December
Grantee	Date of Grant	2018	Granted	Exercised	Cancelled	Lapsed	2018
Employees	25 June 2008	40,000	–	–	–	–	40,000
(in aggregate)	31 December 2008	5,000	–	–	–	–	5,000
	3 July 2009	27,500	–	–	–	–	27,500
	2 July 2010	328,000	–	–	–	–	328,000
	26 August 2011	7,242,000	–	–	–	–	7,242,000
	15 October 2012	400,000	–	–	–	(287,000)	113,000
	2 July 2013	600,000	–	–	–	–	600,000
	27 August 2013	1,150,000	–	–	–	(320,000)	830,000
	25 October 2013	1,050,000	–	–	–	(50,000)	1,000,000
	30 June 2014	150,000	–	–	–	–	150,000
	25 September 2014	100,000	–	–	–	–	100,000
	8 January 2015	150,000	–	–	–	–	150,000
	17 April 2015	2,200,000	–	–	–	–	2,200,000
	2 July 2015	2,070,000	–	–	–	(80,000)	1,990,000
	13 July 2017	2,500,000	–	–	–	–	2,500,000
	1 June 2018	–	2,100,000	–	–	–	2,100,000
	6 December 2018	–	1,000,000	–	–	(1,000,000)	–
Directors							
Mr. Jen Shek Voon	22 January 2009	100,000	–	–	–	–	100,000
Mr. Wang Jincheng	22 January 2009	37,500	–	–	–	–	37,500
Mr. Jen Shek Voon	15 October 2012	100,000	–	–	–	–	100,000
Mr. Lo Peter	15 October 2012	100,000	–	–	–	–	100,000
Mr. Katsuaki Shigemitsu	15 October 2012	100,000	–	–	–	–	100,000
Mr. Wang Jincheng	15 October 2012	100,000	–	–	–	–	100,000
		18,550,000	3,100,000	–	–	(1,737,000)	19,913,000

Directors' rights to acquire shares or debentures

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" and "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of eighteen was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate nor had exercised any such right.

Retirement scheme

Particulars of the retirement scheme of the Company are set out in note 40 to the consolidated financial statements.

Continuing connected transactions

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

Shigemitsu transactions

Shigemitsu Industry Co., Ltd. ("Shigemitsu") is a company incorporated in Japan and owned by the Shigemitsu family. Mr. Katsuaki Shigemitsu, a non-executive Director, personally owns approximately 44.5% interest in Shigemitsu, which is thus a connected person of the Company pursuant to the Listing Rules.

1. The franchise agreements

The Group entered into respective two franchise agreements with Shigemitsu on 19 February 2006, one in respect of the PRC and the other in respect of Hong Kong and Macau (collectively, the "Franchise Agreements"). Pursuant to the Franchise Agreements, Shigemitsu grants a sole, exclusive and perpetual franchise to the Group to operate the franchise business of manufacturing, supplying, marketing, distributing and selling ramen and the special Japanese soup base formulated and produced by Shigemitsu and the business of operating Japanese style ramen FCR chain restaurants under the trade name of "Ajisen Ramen" and related trademarks (the "Franchise Business").

Pursuant to the Franchise Agreements, the franchise fees and technical fees are payable by the Group to Shigemitsu. The franchise fee is calculated with reference to the number of restaurants and the technical fee is an annual payment for the business of manufacturing and distributing noodles under the "Ajisen" trademark.

The annual cap set for the aggregate franchise fees and technical fees payable under the Franchise Agreements for the year ended 31 December 2018 is RMB30,570,218 (HK$35,710,577). The aggregate amount of the franchise fees and the technical fees for the year ended 31 December 2018 is approximately RMB29,105,109.

The annual cap set for the aggregate royalty of Roma is RMB88,900, the aggregate amount of the royalty for the year ended 31 December 2018 is approximately RMB40,225.

2. Supply agreements between the Group and Shigemitsu

Fortune Choice Limited ("Fortune Choice"), an indirect wholly-owned subsidiary of the Company entered into a supply agreement with Shigemitsu on 23 March 2006, as supplemented by a supplemental supply agreement entered into by the same party on 16 September 2006 and renewed for a term of three years from 14 May 2015 by a renewal supply agreement dated 14 May 2015 (the "Supply Agreement"). As the Group intended to continue carrying out the transactions under the Supply Agreement, the Group renewed the Supply Agreement with Fortune Choice on 14 May 2018 for a further three-year term. Pursuant to the Supply Agreement, Shigemitsu agrees to supply materials and supplies which are required by the Group for the operation of the Franchise Business.

Festive Profits Limited ("Festive Profits"), an indirect wholly-owned subsidiary of the Company entered into a supply agreement with Shigemitsu Food (Shanghai) Co., Ltd. ("Shigemitsu Food") on 14 May 2009 and renewed for a term of three years from 14 May 2015 by a renewal supply agreement dated 14 May 2015 (the "Supply Agreement (PRC)"). As the Group intended to continue carrying out the transactions under the Supply Agreement (PRC), the Group renewed the Supply Agreement (PRC) with Festive Profits on 14 May 2018 for a further three-year term. Shigemitsu Food is wholly owned by Eagle Sky International Limited, which is in turn owned by Mr. Katsuaki Shigemitsu and Shigemitsu as to 60% and 30% respectively. Pursuant to the Supply Agreement (PRC), Shigemitsu Food agrees to sell materials and supplies which are required by the Group for the operation of the Franchise Business in the PRC, including the soup base and other goods.

The annual cap set for the Group's total amount payable to Shigemitsu under the Supply Agreement and the Supply Agreement (PRC) for the year ended 31 December 2018 is RMB1,159,944 (HK$1,354,988). The actual amount payable for the year is approximately RMB1,025,000.

3. Sales agreement between Fortune Choice and Shigemitsu

Fortune Choice and Shigemitsu entered into a sales agreement on 23 March 2006 which was renewed for a term of three years from 14 May 2015 by a renewal sales agreement dated 14 May 2015 (the "Sales Agreement (Japan)"). As the Group intended to continue carrying out the transactions under the Sales Agreement (Japan), the Group renewed the Sales Agreement (Japan) with Fortune Choice on 14 May 2018 for a further three-year term. Pursuant to Sales Agreement (Japan), Fortune Choice agrees to sell and export various goods to Shigemitsu, including fried union crispy packs, fried garlic crispy packs and other sundry items.

The annual cap set for Shigemitsu's total amount payable to the Group under the Sales Agreement (Japan) for the year ended 31 December 2018 is RMB41,725,638 (HK$48,741,772). The actual amount received for the year is approximately RMB31,279,000.

Design Union transactions

Design Union Interior Contracting Limited ("Design Union") provides design, decoration and renovation services to the Group's chain restaurants in Hong Kong.

Design Union is jointly owned by Mr. Poon Ka Man, Jason and his wife. Mr. Poon Ka Man, Jason is the younger brother of Ms. Poon Wai. He is also an executive Director.

A framework agreement was entered into between Design Union and the Group on 8 March 2007 which was renewed for a term of three years from 14 May 2015 by a renewal agreement dated 14 May 2015 (the "Design Union Agreement"). As the Group intended to continue carrying out the transactions under the Design Union Agreement, the Group renewed the Design Union Agreement with Design Union on 14 May 2018 for a further three-year term. Pursuant to the Design Union Agreement, Design Union agrees to provide services and materials for design, decoration and renovation for restaurants operated or to be operated by the Group in Hong Kong.

The annual cap set for the amount payable by the Group to Design Union under the Design Union Agreement for the year ended 31 December 2018 is RMB4,329,600 (HK$5,057,619). The actual amount payable for the year is approximately RMB2,638,000.

The INEDs have reviewed the above continuing connected transactions during the year and confirmed that the transactions have been entered into:

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

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

(1) nothing has come to their attention that causes them to believe that the above continuing connected transactions have not been approved by the Company's Board of Directors.

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

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

(4) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the above continuing connected transactions have exceeded the annual cap as set by the Company.

As Mr. Poon Ka Man, Jason and Mr. Katsuaki Shigemitsu have interests in the above continuing connected transactions, they have abstained from physically attending meetings or have abstained from voting on any such board resolution of the Group in relation to the relevant continuing connected transactions.

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

Apart from the above continuing connected transactions, the related party transaction with Ms. Poon as disclosed in note 41 to the consolidated financial statements also constitutes continuing connected transaction as defined in Chapter 14A of the Listing Rules. However, it is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The other related party transactions set out in note 41 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

Employee's remuneration and policy

As at 31 December 2018, the Group employed 11,609 persons (31 December 2017: 11,324 persons, most of the Group's employees work in the chain restaurants of the Group in the PRC. The number of employees will be changed from time to time as may be necessary and the remuneration will be determined by reference to the practice of the industry.

The Group conducted regular reviews on its remuneration policy and overall remuneration payment. Besides retirement scheme and internal training courses, employees may be granted discretionary bonus and/or share options based on their performances.

The total remuneration payment of the Group for the year ended 31 December 2018 was approximately RMB608,433,000 (31 December 2017: RMB590,245,000).

Permitted Indemnity

Subject to the applicable laws, every director of the Group's companies shall be entitled to be indemnified by the relevant company against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto pursuant to their respective articles of associations. Such provisions were in force during the course of the financial year ended 31 December 2018 and remained in force as of the date of this report. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the amount of public float as required by the Listing Rules up to the date of this annual report.

Auditor

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu. A resolution for its reappointment as auditor for the ensuing year will be proposed at the forthcoming AGM.

Subsequent Event

As disclosed in the Company's announcements dated 14 December 2018 and 13 March 2019 (the "Announcements"), the Company reported that Mr. Lau Ka Ho, Robert, the former chief financial officer of the Company, is suspected to have misappropriated funds of Ajisen China Group Management Limited, a wholly-owned subsidiary of the Company (the "Misappropriation Incident"). For more details about the Misappropriation Incident, please refer to the Announcements and pages 22 to 23 of this annual report.

On behalf of the Board
Poon Wai
Chairman and Chief Executive Officer

Hong Kong, 20 March 2019

Deloitte. 德勤

TO THE SHAREHODLERS OF AJISEN (CHINA) HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Ajisen (China) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 148, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters *(continued)*

Key audit matter

Valuation of the Group's financial assets at fair value through profit or loss ("FVTPL")

We identified the valuation of the Group's financial assets at FVTPL as a key audit matter due to its significance in the context of the Group's consolidated financial statements, combined with the management judgments involved in the fair value determination of such financial assets.

As disclosed in Note 22 to the consolidated financial statements, as at 31 December 2018, the carrying amount of financial assets at FVTPL amounted to approximately RMB310,362,000. As disclosed in Note 34 to the consolidated financial statements, the Group has determined that the fair value for certain of its investments as at 31 December 2018 amounted to RMB236,120,000 with reference to the price agreed and accepted in the recent investments made to these entities and remaining investments amounted to RMB74,242,000 by the discounted cash flow method. Changes in the key inputs and assumptions on which the fair value of these assets are based could significantly affect the Group's assessment resulting in a fair value change being recognised. Changes in the key inputs and assumptions on which the fair value of these assets are based could significantly affect the Group's assessment resulting in a fair value loss being recognised.

How our audit addressed the key audit matter

Our procedures in relation to the valuation of Group's financial assets at FVTPL included:

- Obtaining an understanding of management controls over the valuation of the investments;
- Evaluating the competence and capabilities of the management of the Group in the fair value determination;
- Obtaining an understanding of the valuation processes and significant assumptions from the management of the Group and assessing if the valuation approach meets the requirement of HKFRSs and industry norms; and
- Obtaining the information upon which the valuation were based and assessing the suitability of this information as the basis for valuation, including but not limited to, i) obtaining and reading the shareholders' agreement and industry and company-specific public market information during the period since the date of investment up to 31 December 2018, ii) obtaining and reading the sale and purchase agreement relating to the recently issued shares in ascertaining whether the issue prices of the newly issued shares can be referenced and iii) obtaining the discounted cash flow and reviewing the significant assumptions in the determination of fair value of the investments as at 31 December 2018.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**2,377,745**	2,332,283
Cost of inventories consumed		**(584,720)**	(577,756)
Staff costs		**(608,433)**	(590,245)
Depreciation and amortisation		**(156,093)**	(151,342)
Property rentals and related expenses		**(404,066)**	(382,927)
Other operating expenses		**(392,661)**	(328,475)
Profit from operation		**231,772**	301,538
Other income	7	**96,794**	88,575
Other gains and losses	8	**349,320**	(914,322)
Share of profit (loss) of associates		**3,395**	(4,107)
Share of loss of a joint venture		**(912)**	–
Finance costs	9	**(6,504)**	(5,546)
Profit (loss) before taxation	10	**673,865**	(533,862)
Taxation	12	**(108,525)**	(50,793)
Profit (loss) for the year		**565,340**	(584,655)
Other comprehensive income (expense), net of income tax			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of property, plant and equipment and prepaid lease payment on transfer to investment properties		**71,914**	1,562
Deferred tax liability on recognition of revaluation of property, plant and equipment on transfer to investment properties		**(18,065)**	(742)
		53,849	820
Items that may be reclassified subsequently to profit or loss:			
Reclassification of cumulative gain on fair value change previously recognised in other comprehensive income to profit or loss on an available-for-sale investment		**–**	(1,626)
Exchange differences arising on translation of foreign operation		**(1,869)**	(32,688)
		(1,869)	(34,314)
Other comprehensive income (expense) for the year, net of income tax		**51,980**	(33,494)
Total comprehensive income (expense) for the year		**617,320**	(618,149)

(continued)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		**551,020**	(486,650)
Non-controlling interests		**14,320**	(98,005)
		565,340	(584,655)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**585,074**	(506,595)
Non-controlling interests		**32,246**	(111,554)
		617,320	(618,149)
		2018 RMB	2017 RMB
Earnings (loss) per share	*14*		
– Basic		**0.50**	(0.45)
– Diluted		**0.50**	(0.45)

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Investment properties	15	**679,874**	492,042
Property, plant and equipment	16	**882,455**	874,763
Prepaid lease payments	17	**55,988**	64,999
Intangible assets		**5,608**	5,350
Interests in associates	20	**149,349**	145,894
Interest in a joint venture	21	**11,946**	5,143
Rental deposits		**83,070**	81,802
Goodwill	18	**7,129**	6,801
Deferred tax assets	19	**1,695**	1,484
Available-for-sale investments		**–**	6,906
Financial assets at fair value through profit or loss ("FVTPL")	22	**310,362**	–
Financial assets designated as at FVTPL	22	**–**	245,487
Long term receivables	23	**86,077**	–
		2,273,553	1,930,671
Current assets			
Inventories	24	**79,260**	70,397
Trade and other receivables	25	**425,075**	135,524
Amount due from a related party	26	**12**	12
Taxation recoverable		**3,260**	2,335
Pledged bank deposits	27	**380**	380
Bank balances and cash	27	**1,356,407**	1,534,103
		1,864,394	1,742,751
Current liabilities			
Trade and other payables	28	**246,551**	224,898
Contract liabilities		**12,824**	–
Amounts due to related companies	29	**4,428**	5,071
Amounts due to directors	29	**906**	441
Amount due to a shareholder	29	**30,274**	27,756
Amounts due to non-controlling interests	29	**13,532**	13,516
Amount due to associates	29	**12,116**	12,063
Dividend payable		**26**	24
Taxation payable		**51,416**	50,162
Bank borrowings	30	**169,598**	269,532
		541,671	603,463

(Continued)

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Net current assets		**1,322,723**	1,139,288
Total assets less current liabilities		**3,596,276**	3,069,959
Non-current liabilities			
Bank borrowings	30	**49,913**	50,586
Deferred tax liabilities	19	**107,872**	73,424
Financial liabilities at FVTPL		**132,747**	–
		290,532	124,010
Net assets		**3,305,744**	2,945,949
Capital and reserves			
Share capital	31	**108,404**	108,404
Reserves		**3,122,086**	2,623,575
Equity attributable to owners of the Company		**3,230,490**	2,731,979
Non-controlling interests		**75,254**	213,970
Total equity		**3,305,744**	2,945,949

The consolidated financial statements on pages 58 to 61 were approved and authorised for issue by the Board of Directors on 20 March 2019 and are signed on its behalf by:

Poon Wai
DIRECTOR

Poon Ka Man, Jason
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2018

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Properties revaluation reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Other reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2017	108,404	1,887,197	(234,729)	65,812	1,159	39,282	(172,711)	139,289	–	898,276	2,731,979	213,970	2,945,949
Adjustments (Note 2)	–	–	–	–	–	–	–	–	–	(5,620)	(5,620)	–	(5,620)
At 1 January 2018 (restated)	108,404	1,887,197	(234,729)	65,812	1,159	39,282	(172,711)	139,289	–	892,656	2,726,359	213,970	2,940,329
Profit for the year	–	–	–	–	–	–	–	–	–	551,020	551,020	14,320	565,340
Other comprehensive income (expense) for the year	–	–	–	–	–	53,849	(19,795)	–	–	–	34,054	17,926	51,980
Total comprehensive income (expense) for the year	–	–	–	–	–	53,849	(19,795)	–	–	551,020	585,074	32,246	617,320
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(64,946)	(64,946)
Dividends recognised as distribution (Note 13)	–	–	–	–	–	–	–	–	–	(72,885)	(72,885)	–	(72,885)
Recognition of equity-settled share-based payments	–	–	–	1,947	–	–	–	–	–	–	1,947	–	1,947
Transfer on forfeiture of share options	–	–	–	(3,916)	–	–	–	–	–	3,916	–	–	–
Transfer	–	–	–	–	–	–	–	15,884	–	(15,884)	–	–	–
Acquisition of additional equity interests in a subsidiary	–	–	–	–	–	–	–	–	(10,005)	–	(10,005)	(5,547)	(15,552)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	1,922	1,922
Capital withdrawal from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(102,391)	(102,391)
At 31 December 2018	108,404	1,887,197	(234,729)	63,843	1,159	93,131	(192,506)	155,173	(10,005)	1,358,823	3,230,490	75,254	3,305,744

(Continued)

Consolidated Statement of Changes In Equity

For the year ended 31 December 2018

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Share options reserve RMB'000	Capital reserve RMB'000	Properties revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	108,404	1,887,197	(234,729)	73,660	1,159	38,462	1,626	(153,572)	129,917	1,495,664	3,347,788	271,265	3,619,053
Loss for the year	–	–	–	–	–	–	–	–	–	(486,650)	(486,650)	(98,005)	(584,655)
Other comprehensive income (expense) for the year	–	–	–	–	–	820	(1,626)	(19,139)	–	–	(19,945)	(13,549)	(33,494)
Total comprehensive income (expense) for the year	–	–	–	–	–	820	(1,626)	(19,139)	–	(486,650)	(506,595)	(111,554)	(618,149)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(15,750)	(15,750)
Dividends recognised as distribution (Note 13)	–	–	–	–	–	–	–	–	–	(111,440)	(111,440)	–	(111,440)
Recognition of equity-settled share-based payments	–	–	–	2,226	–	–	–	–	–	–	2,226	–	2,226
Transfer on forfeiture of share options	–	–	–	(10,074)	–	–	–	–	–	10,074	–	–	–
Transfer	–	–	–	–	–	–	–	–	9,372	(9,372)	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	70,009	70,009
At 31 December 2017	108,404	1,887,197	(234,729)	65,812	1,159	39,282	–	(172,711)	139,289	898,276	2,731,979	213,970	2,945,949

The special reserve mainly represents the aggregate of:

(a) An amount of approximately RMB41 million, being the difference between the paid-in capital of Ajisen (China) International Limited ("Ajisen International") and the subsidiaries involved in the group reorganisation which was effected in 2007.

(b) A net amount of approximately RMB45 million, being the difference between (i) the share premium which resulted from the issue of shares of the Ajisen International, of RMB219 million to acquire additional interests in subsidiaries (which resulted in a goodwill of approximately RMB36 million) and (ii) an amount of approximately RMB174 million, being the difference between the fair value and the carrying amount of the additional interest in these subsidiaries prior to the acquisition, which represented a revaluation increase in the net assets attributable to the Group's additional interest in the subsidiaries effected in 2007.

(c) A net debit amount of approximately RMB321 million, being the difference between (i) the consideration which comprised cash consideration of RMB184 million and share consideration of RMB137 million of the acquisition of Luck Right Limited ("Luck Right") and its subsidiaries from Ms. Poon Wai in 2008 and (ii) the share capital of Luck Right.

Share options reserve represents fair values of share options recognised as expense over their vesting periods on a straight-line basis. Fair values of share options previously recognised in this reserve will be transferred to share premium when the share options are exercised. Fair values of share options previously recognised in this reserve will be transferred to retained profits when the share options are forfeited after the vesting date or are still not exercised at the expiry date.

Capital reserve represents the difference between the actual amount contributed and the registered paid-in capital of certain subsidiaries.

Properties revaluation reserve represents the difference between (i) the carrying amounts and (ii) the fair values of property interests previously classified as property, plant and equipment by the Group at the dates the Group changed their intention and transferred these property interests to investment properties.

Investment revaluation reserve represents gain or loss on revaluation of available-for-sale investments.

As stipulated by the relevant laws and regulations for foreign investment enterprises in People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriations to such reserve is made out of profit after taxation of the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**673,865**	(533,862)
Adjustments for:		
Compensation in relation to a prior year investment	**(329,404)**	–
Fair value gain on financial assets at FVTPL	**(11,536)**	–
Fair value loss on financial assets designated as at FVTPL	**–**	935,059
Fair value loss on financial liabilities at FVTPL	**49,227**	–
Fair value gain on investment properties	**(47,840)**	(23,036)
Depreciation of property, plant and equipment	**154,565**	149,376
Finance costs	**6,504**	5,546
Bank interest income	**(15,935)**	(13,226)
(Gain) loss on disposal of property, plant and equipment	**(12,385)**	6,091
Operating lease rentals in respect of prepaid lease payments	**1,528**	1,966
Share-based payment expenses	**1,947**	2,226
Share of loss of a joint venture	**912**	–
Share of (profit) loss of associates	**(3,395)**	4,107
Reclassification of cumulative gain on fair value change previously recognised in other comprehensive income to profit or loss on an available-for-sale investment	**–**	(1,626)
Operating cash flows before movements in working capital	**468,053**	532,621
(Increase) decrease in rental deposits	**(1,268)**	946
(Increase) decrease in inventories	**(8,863)**	11,959
Increase in trade and other receivables	**(26,705)**	(34,735)
Increase (decrease) in trade and other payables	**19,926**	(47,930)
Increase in contract liabilities	**1,710**	–
Cash generated from operations	**452,853**	462,861
Income tax paid	**(92,011)**	(100,814)
NET CASH FROM OPERATING ACTIVITIES	**360,842**	362,047

(Continued)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Interest received	**15,935**	13,226
Dividend income from interest in an associate	**–**	812
Proceeds on disposal of property, plant and equipment	**30,151**	1,949
Purchase of property, plant and equipment	**(202,756)**	(201,673)
Acquisition of associates	**–**	(14,440)
Capital injection to a joint venture	**(7,715)**	(5,143)
Purchase of financial assets at FVTPL	**(124,120)**	–
Purchase of financial assets designated as at FVTPL	**–**	(39,578)
Proceeds on disposal of financial assets at FVTPL	**62,083**	–
Proceeds on disposal of financial assets designated as at FVTPL	**–**	88,882
NET CASH USED IN INVESTMENT ACTIVITIES	**(226,422)**	(155,965)
FINANCING ACTIVITIES		
Advance from related companies	**5,154**	3,703
Repayment to related companies	**(5,797)**	(3,800)
Advance from directors	**5,692**	3,366
Repayment to directors	**(5,227)**	(3,396)
Advance from associates	**14,043**	16,108
Repayment to associates	**(13,990)**	(8,647)
Advance from a shareholder	**67,495**	61,662
Repayment to a shareholder	**(64,977)**	(61,470)
Bank borrowings raised	**236,574**	216,335
Repayment of bank borrowings	**(352,611)**	(171,836)
Interest paid	**(6,504)**	(5,546)
Dividends paid to shareholders of the Company	**(74,598)**	(107,667)
Dividends paid to non-controlling interests	**(64,946)**	(15,750)
Contribution from non-controlling interests	**1,922**	70,009
Withdrawal from non-controlling interests	**(18,871)**	–
Acquisition of additional interest a subsidiary from non-controlling interests	**(15,552)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(292,193)**	(6,929)
Net (decrease) increase in cash and cash equivalents	**(157,773)**	199,153
Cash and cash equivalents at 1 January	**1,534,103**	1,313,304
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies	**(19,923)**	21,646
Cash and cash equivalents at 31 December, representing bank balances and cash	**1,356,407**	1,534,103

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

Ajisen (China) Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability on 6 April 2006 under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2007. Its immediate holding company is Favour Choice Limited, a company which is incorporated in the British Virgin Islands and wholly-owned by Anmi Holdings Limited, a company which is incorporated in the British Virgin Islands and wholly-owned by Anmi Trust and controlled by Ms. Poon Wai ("Ms. Poon") who is also the Chairwoman and Managing Director of the Company. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporation Information" section to the annual report.

The principal activities of the Group is operation of restaurants, manufacture and sales of noodles and related products, and investment holding.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and the PRC operating subsidiaries of the Company. The functional currency of Hong Kong operating subsidiaries is Hong Kong dollars ("HK$"). Details of the subsidiaries of the Company (together with the Company hereinafter defined as the "Group") are set out in Note 42.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue* and the relevant interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the relevant interpretations.

The Group recognises revenue from the following major sources:

- Operation of restaurants
- Manufacture and sales of noodles and related products

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

The following adjustment was made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	**Carrying amounts under HKFRS 15 at 1 January 2018*** **RMB'000**
Current liabilities			
Trade and other payables	224,898	(11,114)	**213,784**
Contract liabilities	–	11,114	**11,114**

* The amounts in this column are before the adjustments from the application of HKFRS 9.

As at 1 January 2018, advances from customers of RMB11,114,000 in respect of contracts previously included in trade and other payables were reclassified to contract liabilities for RMB11,114,000.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.1 *HKFRS 15 Revenue from Contracts with Customers* - continued

Impact on the consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Current liabilities			
Trade and other payables	246,551	12,824	259,375
Contract liabilities	12,824	(12,824)	–

Impact on the consolidated statement of cash flow

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
OPERATING ACTIVITIES			
Increase in trade and other payables	19,926	1,710	21,636
Increase in contract liabilities	1,710	(1,710)	–
Cash generated from operations	452,853	–	452,853
NET CASH FROM OPERATING ACTIVITIES	360,842	–	360,842

2.2 *HKFRS 9 Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.2 HKFRS 9 Financial Instruments - continued

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale investments	Financial assets designated as at FVTPL	Trade receivables	Financial assets at FVTPL required by HKAS39/ HKFRS 9	Retained profits
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Closing balances at 31 December 2017 – HKAS 39	6,906	245,487	37,246	–	898,276
Effect arising from initial application of HKFRS 9:					
Reclassification					
From available-for-sale investments (a)	(6,906)	–	–	6,906	–
From designated as at FVTPL (b)	–	(245,487)	–	245,487	–
Remeasurement					
Impairment under ECL model (c)	–	–	(2,956)	–	(2,956)
From cost less impairment to fair value (a)	–	–	–	(2,664)	(2,664)
Opening balance at 1 January 2018	–	–	34,290	249,729	892,656

(a) Available-for-sale investments

From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB6,906,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value losses of RMB2,664,000, relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits as at 1 January 2018.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.2 HKFRS 9 Financial Instruments - continued

Summary of effects arising from initial application of HKFRS 9 - continued

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of RMB245,487,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, pledged bank deposits, bank balances and loan to an associate, are measured on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition. In the opinion of the directors of the Company, the expected credit loss for other financial assets are insignificant as at 1 January 2018.

As at 1 January 2018, the additional credit loss allowance of RMB2,956,000 has been recognised against retained profits.

All loss allowances for financial assets including trade receivables as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables RMB'000
At 31 December 2017 – HKAS 39	–
Amounts remeasured through opening retained profits	2,956
At 1 January 2018	2,956

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening consolidated consolidated statement of financial position had to be adjusted. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	**1 January 2018 (restated) RMB'000**
Non-current assets				
Available-for-sale investments	6,906	–	(6,906)	**–**
Financial assets designated as at FVTPL	245,487	–	(245,487)	**–**
Financial assets at FVTPL	–	–	249,729	**249,729**
Current assets				
Trade and other receivables	135,524	–	(2,956)	**132,568**
Current liabilities				
Trade and other payables	224,898	(11,114)	–	**213,784**
Contract liabilities	–	11,114	–	**11,114**
Capital and reserves				
Reserves	2,623,575	–	(5,620)	**2,617,955**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
HK(IFRIC)-Int 23	*Uncertainly over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS1 and HKAS 8	*Definition of Material*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and amendments to HKFRSs in issue but not yet effective - continued

HKFRS 16 Leases - continued

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable minimum operating lease commitments as lessee of RMB876,819,000 as disclosed in Note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB98,855,000 and refundable rental deposits received of RMB12,028,000 as rights and obligation under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and amendments to HKFRSs in issue but not yet effective - continued

HKFRS 16 Leases - continued

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group has not reassessed whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elected the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information. 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 elected not to apply the requirements for leases previously classified as operating leases for which the lease term ends within 12 months of the date of initial application. In this case, the Group accounted for those leases in the same way as short-term leases; and include the cost associated with those leases within the disclosure of short-term lease expense in the annual reporting period that includes the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposed are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is include within the carrying amount of the investment. Any excess of the Group's share of the net fair value of identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment in associates and joint ventures - continued

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as wold be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassified to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reducing in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profit and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) - continued

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

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

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, i.e. sub-franchise contracts, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct goods or services underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or services separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

Leasehold land and building

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

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

Foreign currencies

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

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

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

Goodwill on identifiable assets acquired arising on an acquisition of a foreign operation is treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefit costs and termination benefit

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 32 to the Group's consolidation financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimate, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are excised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) and freehold land held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in properties revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

If an investment property becomes an item of property, plant and equipment because its use has changed as evidenced by commencement of owner-occupation, the fair value of that item at the date of change in use shall be treated as its deemed cost for subsequent accounting in accordance with HKAS 16 *Property, Plant and Equipment*.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indicator that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on tangible and intangible assets other than goodwill - continued

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on the weighted average method basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) - continued

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amount due from a related party, pledged bank deposits, bank balances, loan to an associate and long-term receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12M ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively for other debtors using a provision matrix with appropriate groupings.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) - continued

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) - continued

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) - continued

(v) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity - continued

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Financial liabilities at amortised cost

Financial liabilities including bank borrowings, trade and other payables, amounts due to related companies, amounts due to directors, amount due to a shareholder, amounts due to non-controlling interests and amount due to associates are subsequently measured at amortised cost, using the effective interest method.

4. KEY SOURCE OF ESTIMATION AND UNCERTAINTY CRITICAL ACCOUNTING JUDGEMENTS

In the application of the Group's accounting policies which are described in Note 3 to the consolidated financial statements, the management has made various judgements and estimates based on past experience, expectations of the future and other information. The critical judgements and key source of estimation uncertainty at the end of the report period, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Key source of estimation uncertainty

Fair value measurements and valuation processes

Some of the Group's assets are measured at fair value for financial reporting purposes. The board of directors of the Company have set up a valuation team to determine the appropriate valuation approaches and inputs for fair value measurements.

In estimating the fair value of the financial assets and liabilities, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group will engage third party qualified valuers to perform the valuation, if necessary. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The valuation team reports the valuation findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the related financial assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 15 and 34 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Useful lives and residual value of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of obsolete assets when residual value or useful lives are less than previously estimated.

At 31 December 2018, the carrying amount of property, plant and equipment amounted to approximately RMB882,455,000 (31 December 2017: RMB874,763,000).

4. KEY SOURCE OF ESTIMATION AND UNCERTAINTY CRITICAL ACCOUNTING JUDGEMENTS - continued

Key source of estimation uncertainty - continued

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 25.

Critical judgements in applying accounting policies

Deferred taxation on investment properties in the PRC and in Hong Kong

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties in the PRC and in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation on investment properties in the PRC and in Hong Kong, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted and deferred tax liabilities have been recognised.

However, the Group has not recognised any deferred taxes on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of these investment properties.

5. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2018 RMB'000	2017 RMB'000
Operation of restaurants	**2,218,124**	2,211,658
Manufacture and sales of noodles and related products	**159,621**	120,625
	2,377,745	2,332,283
Timing of revenue recognition		
A point in time	**2,377,745**	2,332,283

(ii) Performance obligations for contracts with customers

Revenue from operation of restaurants and manufacture and sales of noodles and related products is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. For operation of restaurants, payment of the transaction price is due immediately at the point the customer purchases noodles and related products. For manufacture and sales of noodles and related products, the advance payments received from customers are recognised as contract liabilities throughout the year ended 31 December 2018 before the control on the goods is transferred to customers.

All transactions are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Revenue of RMB7,720,000 was recognised in the current year relates to carried-forward contract liabilities that was included in the contract liability balance at the beginning of the year

6. SEGMENT INFORMATION

Information reported to Ms. Poon, the Group's chief operating decision maker, for the purposes of resource allocation and assessment of performance, is analysed by different operating divisions and geographical locations. This is also the basis upon which the Group is organised and specifically focuses on the Group's three operating divisions, namely operation of restaurants, manufacture and sales of noodles and related products and investment holding. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

6. SEGMENT INFORMATION - continued

The Group's operating and reportable segments under HKFRS 8 are as follows:

Operation of restaurants	– operation of restaurants in the PRC (excluding Hong Kong) – operation of restaurants in Hong Kong
Manufacture and sales of noodles and related products	– manufacture and sales of packaged noodles and related products in the PRC
Investment holding	– leasing of property interests and investment in financial instruments

Information regarding these segments is presented below.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended 31 December 2018

	Operation of restaurants			Manufacture and sales of noodles and related products	Investment holding	Segment total	Elimination	Total
	PRC (excluding Hong Kong) RMB'000	Hong Kong RMB'000	Total RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue								
– external sales	2,038,888	179,236	2,218,124	159,621	–	2,377,745	–	2,377,745
– inter-segment sales	–	–	–	779,219	–	779,219	(779,219)	–
	2,038,888	179,236	2,218,124	938,840	–	3,156,964	(779,219)	2,377,745
Segment profit	347,392	1,856	349,248	14,295	368,469*	732,012	–	732,012
Interest income								15,935
Unallocated administrative expenses								(67,578)
Finance costs								(6,504)
Profit before taxation								673,865
Taxation								(108,525)
Profit for the year								565,340

6. SEGMENT INFORMATION - continued

Segment revenue and results - continued

For the year ended 31 December 2017

	Operation of restaurants							
	PRC (excluding Hong Kong) RMB'000	Hong Kong RMB'000	Total RMB'000	Manufacture and sales of noodles and related products RMB'000	Investment holding RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
Revenue								
– external sales	2,029,791	181,867	2,211,658	120,625	–	2,332,283	–	2,332,283
– inter-segment sales	–	–	–	744,436	–	744,436	(744,436)	–
	2,029,791	181,867	2,211,658	865,061	–	3,076,719	(744,436)	2,332,283
Segment profit	347,095	7,182	354,277	45,168	(882,839)*	(483,394)	–	(483,394)
Interest income								13,226
Unallocated administrative expenses								(58,148)
Finance costs								(5,546)
Loss before taxation								(533,862)
Taxation								(50,793)
Loss for the year								(584,655)

* Included share result of associates and a joint venture of RMB2,483,000 in segment profit for the year ended 31 December 2018 (2017: loss of RMB4,107,000).

Other information

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of central administrative costs and directors' salaries and finance costs. This is the measure reported to the chief operating decision maker, Ms. Poon, for the purposes of resource allocation and assessment of segment performance.

Measures of total assets and total liabilities are not reported as these financial information is not reviewed by the Group's chief operating decision maker for the assessment of performance and resources allocation of the Group's business activities.

All of the Group's non-current assets other than financial assets at FVTPL, financial assets designated as at FVTPL, available for sale investments, loan to an associate, deferred tax assets and long term receivables, including investment properties, property, plant and equipment, prepaid lease payments, intangible assets, goodwill and rental deposits, are located in the Group entities' countries of domicile, the PRC and Hong Kong, at the end of each reporting period.

6. SEGMENT INFORMATION - continued

Other information - continued

The following is an analysis of the Group's non-current assets by geographical location of assets:

	2018	2017
	RMB'000	RMB'000
The PRC (excluding Hong Kong)	**1,358,413**	1,248,615
Hong Kong	**515,696**	426,929
	1,874,109	1,675,544

All of the Group's revenue from external customers are attributed to the location of the relevant group entities, which is the PRC and Hong Kong, during the years ended 31 December 2018 and 31 December 2017.

None of the customers accounted for 10% or more of the total revenue of the Group during each of the years ended 31 December 2018 and 31 December 2017.

7. OTHER INCOME

	2018	2017
	RMB'000	RMB'000
Royalty income from sub-franchisee	**38,148**	25,821
Property rental income, net of direct outgoings	**26,433**	23,451
Bank interest income	**15,935**	13,226
Government grant *(note)*	**6,311**	14,375
Compensation received from landlord for early termination of operating leases of restaurants	**682**	385
Others	**9,285**	11,317
	96,794	88,575

Note: The amount of government grant represents the incentive subsidies received from the PRC local district authorities for the business activities carried out by the Group in the district. There are no specific conditions attached to the grant.

8. OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	RMB'000
Compensation in relation to a prior year investment	**329,404**	–
Fair value gain on investment properties	**47,840**	23,036
Reclassification of cumulative gain on fair value change previously recognised in other comprehensive income to profit or loss on an available-for-sale investment	**–**	1,626
Fair value loss on financial assets designated as at FVTPL	**–**	(935,059)
Fair value gain on financial assets at FVTPL	**11,536**	–
Fair value loss on financial liabilities at FVTPL	**(49,227)**	–
Net foreign exchange (loss) gain	**(2,618)**	2,166
	349,320	(914,322)

9. FINANCE COSTS

	2018	2017
	RMB'000	RMB'000
Interest on bank borrowings	**6,504**	5,546

10. PROFIT (LOSS) BEFORE TAXATION

	2018 RMB'000	2017 RMB'000
Profit (loss) before taxation has been arrived at after charging:		
Cost of inventories consumed *(note a)*	**584,720**	577,756
Directors' remuneration *(Note 11)*	**3,327**	3,366
Other staff's salaries, wages and other benefits	**535,978**	518,030
Other staff's retirement benefits scheme contributions	**67,181**	66,629
Other staff's share-based payment expenses	**1,947**	2,220
Total staff costs	**608,433**	590,245
Advertising and promotion expenses	**17,802**	16,239
Depreciation of property, plant and equipment	**154,565**	149,376
Auditor's remuneration		
Audit fee	**2,500**	2,500
Non-audit services	**650**	692
	3,150	3,192
Fuel and utility expenses	**117,182**	111,450
Rental income from investment properties	**26,433**	23,451
Operating lease rentals in respect of		
– land lease	**1,528**	1,966
– rented premises *(note b)*	**348,554**	331,624
	350,082	333,590

Notes:

a. This represents costs of raw materials and consumables used.

b. Included in the operating lease rentals in respect of rented premises are minimum lease payments of approximately RMB266,108,000(2017: RMB248,835,000) and contingent rent of approximately RMB82,446,000(2017: RMB82,789,000).

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to directors and the chief executive are as follows:

	2018						2017					
	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive bonuses RMB'000 *(note)*	Share-based payment expenses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive bonuses RMB'000 *(note)*	Share-based payment expenses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors												
Ms. Poon	–	1,755	121	–	15	1,891	–	1,771	123	–	16	1,910
Mr. Poon Ka Man Jason	–	755	63	–	15	833	–	763	63	–	16	842
Non-executive directors												
Mr. Katsuaki Shigenitsu	108	–	–	–	–	108	108	–	–	1.5	–	109.5
Independent non-executive directors												
Mr. Peter Lo	174	–	–	–	–	174	176	–	–	1.5	–	177.5
Mr. Jen Shek Voon	174	–	–	–	–	174	176	–	–	1.5	–	177.5
Mr. Wang Jincheng	147	–	–	–	–	147	148	–	–	1.5	–	149.5
	603	2,510	184	–	30	3,327	608	2,534	186	6	32	3,366

Note: The performance related incentive bonuses for the years ended 31 December 2018 and 2017 were determined based on performance of the Group and individuals.

Ms. Poon is also the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION
- continued

Of the five individuals with the highest emoluments in the Group, two (2017: two) were directors of Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2017: three) individuals are as follows:

	2018	2017
	RMB'000	RMB'000
Employees		
– Salaries and other benefits	**2,154**	2,754
– Performance related incentive bonuses	**104**	392
– Share-based payment expenses	**794**	65
– Retirement benefits scheme contributions	**110**	104
	3,162	3,315

The number of the highest paid employees whose remuneration fell within the following bands is as follows:

	No. of employees	
	2018	2017
Nil to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**1**	1
	5	5

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the years ended 31 December 2018 and 2017.

12. TAXATION

	2018 RMB'000	2017 RMB'000
Hong Kong Profits Tax		
– Current year	**8,476**	2,319
PRC Income Tax		
– Current year	**85,742**	99,700
– Over provision in prior years	**(6,511)**	(3,560)
	79,231	96,140
Withholding tax	**4,633**	4,740
Deferred taxation charge (credit) *(Note 19)*	**16,185**	(52,406)
	108,525	50,793

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2017.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except the followings:

Pursuant to the relevant provincial policy and written approval obtained from the State Tax Bureau in Chongqing ("Chongqing STB") in 2016, Chongqing Weiqian Food & Culture Co., Ltd. 重慶味千餐飲文化有限公司 ("Chongqing Weiqian"), which is located in Chongqing, the PRC, applied a preferential tax rate of 15% ("Preferential Tax Treatment") from 2016 to 2020. According to the Chongqing STB, the preferential tax rate needs to be applied by Chongqing Weiqian and approved year by year. As such, the Group applied the standard enterprise income tax rate of 25% for Chongqing Weiqian and reduced the income tax liability only after obtaining the written approval.

During the year ended 31 December 2018, Chongqing Weiqian was granted a preferential tax rate of 15% for the year 2017, and therefore, Chongqing Weiqian reversed the income tax liability of approximately RMB5,568,000 which was previously recognised in the year 2017.

12. TAXATION - continued

During the year ended 31 December 2017, Chongqing Weiqian was granted a preferential tax rate of 15% for the year 2016, and therefore, Chongqing Weiqian reversed the income tax liability of approximately RMB4,384,000 which was previously recognised in the year 2016.

Under relevant tax law and implementation regulations in the PRC, dividends paid out of the net profits derived by the PRC operating subsidiaries after 1 January 2008 are subject to the PRC withholding tax at a rate of 10% or a lower treaty rate in accordance with relevant tax laws in the PRC. Under the relevant tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%. Withholding tax has been provided based on the anticipated level of dividend payout ratio of the PRC entities.

Tax charge for the year is reconciled to profit (loss) before taxation as follows:

	Hong Kong				PRC				Total			
	2018		2017		**2018**		2017		**2018**		2017	
	RMB'000	**%**	RMB'000	%	**RMB'000**	**%**	RMB'000	%	**RMB'000**	**%**	RMB'000	%
Profit (loss) before taxation	**302,486**		(960,905)		**371,379**		427,043		**673,865**		(533,862)	
Tax at the applicable income tax rate	**49,910**	**16.5**	(158,549)	16.5	**92,845**	**25.0**	106,761	25.0	**142,775**	**21.2**	(51,788)	9.7
Tax effect of expenses not deductible for tax purposes	**–**	**–**	–	–	**237**	**0.1**	201	0.0	**237**	**0.0**	201	(0.0)
Tax effect of income not taxable for tax purpose	**(4,906)**	**(1.6)**	(2,398)	0.2	**–**	**–**	–	–	**(4,906)**	**(0.7)**	(2,398)	0.4
Tax effect of tax losses not recognised	**8,662**	**2.9**	8,951	(0.9)	**188**	**0.1**	1,813	0.4	**8,850**	**1.3**	10,764	(2.0)
Tax effect of utilisation of tax losses previously not recognised	**(45,386)**	**(15)**	(2,396)	0.2	**(136)**	**(0.0)**	(196)	(0.0)	**(45,522)**	**(6.8)**	(2,592)	0.5
Effect of different tax rate on compensation in relation to a prior year investment	**(4,250)**	**(1.4)**	–	–	**–**	**–**	–	–	**(4,250)**	**(0.6)**	–	–
Effect of different tax rate on fair value change on financial assets designated as at FVTPL	**–**	**–**	93,375	(9.8)	**–**	**–**	–	–	**–**	**–**	93,375	(17.5)
Withholding tax on dividends from PRC subsidiaries	**–**	**–**	–	–	**9,000**	**2.4**	5,191	1.2	**9,000**	**1.3**	5,191	(1.0)
Over provision in prior years	**–**	**–**	–	–	**(6,511)**	**(1.8)**	(3,560)	(0.8)	**(6,511)**	**(1.0)**	(3,560)	0.7
Others	**6,314**	**2.1**	(20)	0.0	**(5,694)**	**(1.5)**	(2,902)	(0.7)	**620**	**0.1**	(2,922)	0.5
Land appreciation tax effect	**–**	**–**	–	–	**8,252**	**2.2**	4,522	1.1	**8,252**	**1.2**	4,522	(0.8)
Tax charge and effective rate for the year	**10,344**	**3.4**	(61,037)	6.4	**98,181**	**26.4**	111,830	26.2	**108,525**	**16.1**	50,793	(9.5)

13. DIVIDENDS

	2018	2017
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
Interim, paid – RMB0.02 (HK2.80 cents) per share for 2018 (2017: paid – RMB0.02 (HK2.50 cents) per share for 2017)	**26,164**	23,610
Final, paid – RMB0.04 (HK5.00 cents) per share for 2017 (2017: paid – RMB0.08 (HK9.30 cents) per share for 2016)	**46,721**	87,830
	72,885	111,440

A final dividend of RMB0.10 (HK12.00 cents) per ordinary share (2017: a final dividend of RMB0.04 (HK5.00 cents) per ordinary share), in an aggregate amount of RMB109,154,000 (HK$130,985,000) has been proposed by the directors of the Company and is subject to approval by the shareholders in the annual general meeting.

14. EARNINGS (LOSS) PER SHARE

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

Earnings (loss)

	2018	2017
	RMB'000	RMB'000
Earnings (loss) for the purposes of basic and diluted earnings per share, being earnings (loss) for the year attributable to owners of the Company	**551,020**	(486,650)

14. EARNINGS (LOSS) PER SHARE - continued

Number of shares

	2018	2017
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**1,091,538,820**	1,091,538,820
Effect of dilutive potential ordinary shares relating to:		
– outstanding share options	**–**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings (loss) per share	**1,091,538,820**	1,091,538,820

All (31 December 2017: all) outstanding share options of the Company have not been included in the computation of diluted earnings (loss) per share as they did not have dilutive effect to the Company's earnings (loss) per share during the year ended 31 December 2018 and 2017 because the exercise prices of these options were higher than the average market prices of the Company's shares during the years ended 31 December 2018 and 2017.

15. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At 1 January 2017	474,228
Exchange alignment	(19,422)
Transfer from property, plant and equipment and prepaid lease payments	14,200
Net increase in fair value recognised in profit or loss	23,036
At 31 December 2017	492,042
Exchange alignment	17,006
Transfer from property, plant and equipment and prepaid lease payments	122,148
Net increase in fair value recognised in profit or loss	48,678
At 31 December 2018	679,874

15. INVESTMENT PROPERTIES - continued

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties were valued by International Valuation Limited (2017: CHFT Advisory and Appraisal Limited), an independent qualified professional valuer not related to the Group, on 18 July 2018 (date of change of intention of the use of the property interests) and 31 December 2018 (2017: 1 August 2017, 1 October 2017 (date of change of intention of the use of the property interests) and 31 December 2017).

In determining the fair value of the relevant properties, the directors of the Company have set up a valuation team to determine the appropriate valuation approaches and inputs for fair value measurements. There has been no change from the valuation approach used in the prior year.

During the year ended 31 December 2018, the Group transferred certain of its property interests held under operating leases with carrying values of approximately RMB42,929,000 (2017: RMB4,830,000) from property, plant and equipment, and RMB8,143,000 (2017: RMB7,808,000) from prepaid lease payments to investment properties. The resulting revaluation surplus of approximately RMB71,914,000 (2017: RMB1,562,000) relating to such property interests as at the date of transfer had been credited to the properties revaluation in equity.

Details of the Group's investment properties are as follows:

	2018	2017
	RMB'000	RMB'000
Commercial property units located in Hong Kong	**399,284**	284,042
Commercial property units located in the PRC	**280,590**	208,000
	679,874	492,042

15. INVESTMENT PROPERTIES - continued

The following table gives information about how the fair values of these investment properties as at 31 December 2018 are determined (in particular, the valuation approaches and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorise based on the degree to which the inputs to the fair value measurements is observable.

Carrying Value of Investment Properties held by the Group in the Consolidated Statements of Financial Positions	Fair Value Hierarchy	Valuation technique(s)	Significant unobservable input(s)	Range
Completed investment properties in the PRC RMB140,930,000 (31 December 2017: RMB137,600,000)	Level 3	Direct comparison approach	Price per square meter[1]	RMB900 to RMB75,000 (2017: RMB1,846 to RMB66,600)
		Income capitalisation approach	Market rent per square meter per month[1]	RMB3.0 to RMB450 (2017: RMB1.9 to RMB63.1)
Completed investment properties in the PRC RMB139,000,000 (31 December 2017: RMB69,900,000)			Capitalisation rate[2]	4.5% to 6.5% (2017: 5.5% to 11.0%)
Car parking spaces in the PRC RMB660,000 (31 December 2017: RMB500,000)		Direct comparison approach	Price per unit[1]	RMB330,000 (2017: RMB180,000 to RMB315,000)
Completed investment properties in HK RMB384,135,000 (31 December 2017: RMB273,510,000)	Level 3	Direct comparison approach	Price per square foot[1]	RMB2,458 to RMB27,162 (2017: RMB2,636 to RMB30,458)
Car parking spaces in HK RMB15,149,000 (31 December 2017: RMB10,532,000)		Direct comparison approach	Price per unit[1]	RMB1,314,300 to RMB1,708,590 (2017: RMB962,132 to RMB1,103,401)

1 Any significant isolated increases (decreases) in these inputs would result in a significantly higher (lower) fair value measurement.

2 Any significant isolated increases (decreases) in these inputs would result in a significantly lower (higher) fair value measurement.

There are no transfers into or out of level 3 during the year.

In estimating the fair value of the properties, the best use of the properties is their current use.

At 31 December 2018, the Group pledged certain of its investment properties to secure general banking facilities granted to the Group. Details are set out in Note 37.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2017	664,157	767,749	78,870	7,196	313,403	82,676	1,914,051
Exchange alignment	(11,731)	(3,878)	(289)	(107)	(1,679)	–	(17,684)
Additions	5,686	76,081	13,747	540	20,653	83,244	199,951
Transfer	28,986	14,237	7,411	–	7,341	(57,975)	–
Transfer to investment properties	(6,700)	–	–	–	–	–	(6,700)
Disposals	–	(17,379)	(4,041)	(1,228)	(10,930)	–	(33,578)
At 31 December 2017	680,398	836,810	95,698	6,401	328,788	107,945	2,056,040
Exchange alignment	7,361	2,743	199	77	1,188	–	11,568
Additions	72	83,232	22,884	12	22,070	87,327	215,597
Transfer	3,627	5,256	4	–	–	(8,887)	–
Transfer to investment properties	(71,226)	–	–	–	–	–	(71,226)
Disposals	(24,077)	(6,319)	(1,164)	(8)	(2,636)	–	(34,204)
At 31 December 2018	596,155	921,722	117,621	6,482	349,410	186,385	2,177,775
ACCUMULATED DEPRECIATION							
At 1 January 2017	148,523	604,217	61,089	6,633	244,416	–	1,064,878
Exchange alignment	(1,455)	(2,586)	(228)	(69)	(1,231)	–	(5,569)
Provided for the year	29,966	83,361	9,583	162	26,304	–	149,376
Transfer to investment properties	(1,870)	–	–	–	–	–	(1,870)
Eliminated on disposals	–	(11,166)	(2,961)	(1,210)	(10,201)	–	(25,538)
At 31 December 2017	175,164	673,826	67,483	5,516	259,288	–	1,181,277
Exchange alignment	1,130	1,963	173	46	900	–	4,212
Provided for the year	25,825	91,940	13,144	226	23,430	–	154,565
Transfer to investment properties	(28,297)	–	–	–	–	–	(28,297)
Eliminated on disposals	(10,385)	(2,553)	(1,132)	(8)	2,359	–	(16,437)
At 31 December 2018	163,437	765,176	79,668	5,780	281,259	–	1,295,320
CARRYING VALUES							
At 31 December 2018	432,718	156,546	37,953	702	68,151	186,385	882,455
At 31 December 2017	505,234	162,984	28,215	885	69,500	107,945	874,763

16. PROPERTY, PLANT AND EQUIPMENT - continued

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line method at the following rates per annum:

Buildings	5%
Leasehold improvements	10% – 33%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	20%
Plant and machinery	15% – 20%

The Group's buildings which are situated in the PRC are erected on land with medium-term leases.

At 31 December 2018 and 31 December 2017, the Group pledged certain of its property, plant and equipment to secure the general banking facilities granted to the Group. Details are set out in Note 37.

17. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
CARRYING VALUES		
At 1 January	**66,798**	77,637
Exchange alignment	**395**	(1,065)
Transfer to investment properties during the year	**(8,143)**	(7,808)
Charged to profit or loss	**(1,528)**	(1,966)
At 31 December	**57,522**	66,798
Less: Amount to be amortised within one year included in trade and other receivables	**(1,534)**	(1,799)
Non-current portion	**55,988**	64,999
Prepaid lease payments comprises:		
Land use rights situated in the PRC under medium-term lease	**50,567**	51,869
Leasehold land situated in Hong Kong under medium-term lease	**6,955**	14,929
	57,522	66,798

At 31 December 2018 and 2017, the Group pledged certain of its leasehold land to secure the general banking facilities granted to the Group. Details are set out in Note 37.

18. GOODWILL

	RMB'000
COST	
At 1 January 2017	33,217
Exchange alignment	(2,176)
At 31 December 2017	31,041
Exchange alignment	1,496
At 31 December 2018	32,537
IMPAIRMENT	
At 1 January 2017	(25,940)
Exchange alignment	1,700
At 31 December 2017	(24,240)
Exchange alignment	(1,168)
At 31 December 2018	(25,408)
CARRYING VALUES	
At 31 December 2018	7,129
At 31 December 2017	6,801

As at 31 December 2018, a goodwill before impairment amounting to RMB31,223,000 is allocated to the cash generating unit of certain restaurants operated in Hong Kong (the "Hong Kong Restaurants CGU") and a goodwill amounting to RMB1,314,000 is allocated to the cash generating unit of certain restaurants operated in the PRC (the "PRC Restaurants CGU"). The Group recognised an impairment loss of RMB25,408,000 in relation to goodwill on Hong Kong Restaurants CGU.

The recoverable amounts of the Hong Kong Restaurants CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the forecast period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Hong Kong Restaurants CGU. The growth rates are referenced to industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

18. GOODWILL - continued

During the year ended 31 December 2018, the Group engaged an independent qualified professional valuer to assist in performing impairment review for goodwill of the Hong Kong Restaurant CGU based on cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using a discount rate of 12.00% (2017: 13.00%) which reflects current market assessments of the time value of money and the risks specific to the Hong Kong Restaurants CGU. The cash flows beyond the next five years are extrapolated using a growth rate of 3.0% (2017: 3.0%) per annum. The growth rates are by reference to industry growth forecasts.

Based on the valuation, no further impairment loss has been provided during the year ended 31 December 2018.

19. DEFERRED TAXATION

The following is the deferred tax assets (liabilities) recognised by the Group and movements thereon during the year.

	Revaluation of properties in the PRC	Land appreciation tax in the PRC	Withholding tax on fair value change of financial assets designated as at FVTPL	Withholding tax on undistributed dividends	Revaluation of available-for-sale investments	Difference in depreciation	Others	Total
	RMB'000	RMB'000 *(note)*	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	(17,508)	(28,927)	(67,619)	(9,081)	(542)	976	(4,092)	(126,793)
Exchange alignment	49	–	3,080	125	–	(65)	–	3,189
(Charge) credit to profit or loss	(7,625)	(4,522)	64,539	(451)	542	–	(77)	52,406
Charge to other comprehension income	(273)	(469)	–	–	–	–	–	(742)
At 31 December 2017	(25,357)	(33,918)	–	(9,407)	–	911	(4,169)	(71,940)
Exchange alignment	(33)	–	–	(1)	–	47	–	13
Charge to profit or loss	(3,566)	(8,252)	–	(4,367)	–	–	–	(16,185)
Charge to other comprehension income	(4,080)	(13,985)	–	–	–	–	–	(18,065)
At 31 December 2018	(33,036)	(56,155)	–	(13,775)	–	958	(4,169)	(106,177)

Note: As the Group's investment properties located in the PRC are held under a business model whose objective is to gain the economic benefits through sale, land appreciation tax is calculated and provided on properties revaluation reserves (charge to equity) when such property, plant and equipment are transferred to investment properties and on change on fair values of investment properties (charge to profit or loss) in the consolidated statement of profit or loss and other comprehensive income.

19. DEFERRED TAXATION - continued

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018	2017
	RMB'000	RMB'000
Deferred tax assets	**1,695**	1,484
Deferred tax liabilities	**(107,872)**	(73,424)
	(106,177)	(71,940)

As at 31 December 2018, the Group has accumulated unutilised tax losses of approximately RMB386,675,000 (2017: RMB336,314,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except the losses which expire as follows:

	2018	2017
	RMB'000	RMB'000
Year of expiry		
2018	**–**	5,016
2019	**4,070**	4,070
2020	**1,752**	1,752
2021	**7,643**	7,643
2022	**7,251**	7,251
2023	**753**	–
	21,469	25,732

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Except for the deferred tax liabilities provided for the undistributed profits of certain PRC operating subsidiaries of approximately RMB275,500,000 (2017: RMB188,140,000), deferred tax liabilities have not yet been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries as at 31 December 2018 amounting to approximately RMB1,356,826,000 (2017: RMB1,232,026,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

20. INTERESTS IN ASSOCIATES

	2018	2017
	RMB'000	RMB'000
Cost of investment in associates	**151,341**	151,341
Share of post-acquisition results and other comprehensive expense	**(3,302)**	(6,697)
	148,039	144,644
Loan to an associate	**1,310**	1,250
	149,349	145,894

21. INTEREST IN A JOINT VENTURE

	2018	2017
	RMB'000	RMB'000
Cost of investment in a joint venture	**12,858**	5,143
Share of post-acquisition results and other comprehensive expense	**(912)**	–
	11,946	5,143

On 28 April 2017, the Group entered into a joint venture cooperation agreement with two independent third parties to the admission and management of Beijing Feicui Jinghua & Restaurant Management Co., Ltd. ("Feicui Jinghua"), which is principally engaged in operating restaurants. The Group took up approximately 42% of equity interest of Feicui Jinghua. As at 31 December 2017, the Group invested the first amount of RMB5,143,000 in Feicui Jinghua. During the year, the Group invested the remaining RMB7,715,000 in Feicui Jinghua according to the joint venture agreement.

Pursuant to its articles of association, the financial and operating policies of Feicui Jinghua are governed by resolutions resolved in the Feicui Jinghua's shareholders' meeting. The Group holds 42% of total voting rights, while a valid resolution of shareholders' meeting requires more than two-thirds of total votes. Decisions about relevant activities of Feicui Jinghua require unanimous consent from the Group and the other equity holder sharing control. Therefore, Feicui Jinghua is accounted for as a joint venture in the consolidated financial statements of the Group.

22. FINANCIAL ASSETS AT FVTPL

	RMB'000
At 31 December 2017	–
Reclassification of financial assets from financial assets designated as at FVTPL to financial assets at FVTPL	245,487
Reclassification of financial assets from available-for-sale investments to financial assets at FVTPL	6,906
Remeasurement from cost less impairment to fair value	(2,664)
At 1 January 2018 (restated)	249,729
Exchange realignment	2,050
Gain on fair value change	11,536
Addition	124,120
Disposal	(77,073)
At 31 December 2018	310,362

The components of financial assets at FVTPL are as follow:

	31 December 2018 RMB'000	1 January 2018 RMB'000 (Restated)
Ele. Me *(Note a)*	**–**	63,487
Yunxi *(Note b)*	**137,000**	122,000
Jiahua Anyuan Fund *(Note c)*	**70,000**	60,000
Hezhi *(Note d)*	**99,120**	–
Others	**4,242**	4,242
	310,362	249,729

Notes:

a. During the year, Ali Panini Investment Limited, an independent third company which has significant influence on the holding company of the Ele.me ("Ele.me"), entered into a share purchase agreement with other shareholders of Ele.me and purchased all shares of Ele.me held by other shareholders (the "Acquisition"). After the Acquisition, the Group was paid in aggregate RMB77,073,000 (US$11,525,000) for all the Series G-1 Shares of Ele.me held by the Company.

Based on the share purchase price in the Acquisition, the management of the Group recognised a fair value gain from the financial asset at FVTPL of approximately RMB11,536,000 (US$1,725,000) in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018. As at 31 December 2018, cash settlement on the amount of RMB62,083,000 (US$9,335,000) has been received by the Group. The directors of the Company considered that the remaining consideration of RMB14,990,000 (US$2,190,000) will be repaid after the next twelve months.

22. FINANCIAL ASSETS AT FVTPL - continued

Notes: (continued)

b. During the year, Shanghai Jingjing Investment Center (Limited Partnership) ("Jingjing"), a subsidiary of the Company, made an additional investment of RMB15,000,000 in Guangzhou Yunxi Information Technology Co., Ltd. ("Yunxi"). Therefore, as at 31 December 2018, Jingjing invested RMB137,000,000 in Yunxi, which represents approximately 8.82% equity interest of Yunxi.

The fair values of the investment in Yunxi as at 31 December 2018 were determined by the management of the Group with reference to the price agreed and accepted by other independent third party investors in the recent investments made to Yunxi. Based on such assessment, the management of the Group concluded there was no material change in the fair value of the investment as at 31 December 2018 as compared with that of as at 31 December 2017.

c. During the year, Jiahua Mingde (Tianjin) Enterprise Management and Consulting Partnership (Limited Partnership) ("Jiahua Mingde"), a subsidiary of the Company, made an additional investment of RMB10,000,000 in Anhui Jiahua Anyuan Investment Fund Partnership (Limited Partnership) ("Jiahua Anyuan Fund"). Therefore, as at 31 December 2018, Jiahua Mingde invested RMB70,000,000 in Jiahua Anyuan Fund, which represents approximately 12% equity interest of Jiahua Anyuan Fund.

The management of the Group considers that the carrying amounts of the investment costs approximate its fair values and as such no fair value change was recognised during the year.

d. During the year, Weiqian Noodle Food Service (Shenzhen) Co., Ltd. ("Weiqian Shenzhen"), a wholly-owned subsidiary of the Company, together with other two independent third parties to the Company, as the limited partners, and Beijing Housheng Investment & Management Center (Limited Partnership) and Guangzhou Hezhi Investment & Management Co., Ltd., two independent third parties to the Company, as the general partners, entered into a limited partnership agreement in relation to the admission and management of Guangzhou Hezhi Investment Center (Limited Partnership) ("Hezhi"). The total capital contribution of Hezhi was RMB1,000,000,000, and Weiqian Shenzhen invested an amount of RMB99,120,000, which took up approximately 9.91% equity interest. As Weiqian Shenzhen has no control, joint control nor significant influence in the limited partnership, this investment was presented as financial asset at FVTPL in the consolidated statement of financial position of the Group. The fair value of the investment is made with reference to the recent investment cost of its investment on initial recognition, and as such no fair value change was recognised during the year.

23. LONG TERM RECEIVABLES

At at 31 December 2018, included in the Group's long term receivables are the remaining balance of consideration from disposal of financial asset at FVTPL and part of compensation receivable in relation to equity investment under financial assets designated as at FVTPL in prior year.

24. INVENTORIES

	2018 **RMB'000**	2017 RMB'000
Raw materials and consumables	**67,828**	61,259
Work in progress	**268**	344
Finished goods	**11,164**	8,794
	79,260	70,397

25. TRADE AND OTHER RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Trade receivables		
– a related company	**935**	935
– others	**33,107**	36,311
	34,042	37,246
Less: allowance for credit losses	**(2,956)**	–
	31,086	37,246
Rental and utility deposits	**21,050**	16,962
Property rentals paid in advance for restaurants	**28,073**	24,638
Advance to suppliers	**26,218**	23,434
Deductible value added tax	**24,753**	15,839
Compensation receivable in relation to equity investment in prior year (note)	**266,067**	–
Prepaid lease payment – current portion	**1,534**	1,799
Other receivables	**26,294**	15,606
	425,075	135,524

Note: The amount has been settled in full on 10 January 2019.

The related company is a company in which Ms. Poon has controlling interests.

Customers including both independent third parties and related company of noodles and related products are normally granted 60 to 90 days credit period upon issuance of invoices, except for certain well established customers for which the credit terms are up to 180 days. There was no credit period for customers relating to sales from operation of restaurants.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB31,086,000 and RMB34,290,000 respectively.

25. TRADE AND OTHER RECEIVABLES - continued

The following is an ageing analysis of trade receivables net of allowance for credit losses presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2018 RMB'000	2017 RMB'000
Ageing		
0 to 30 days	**27,865**	32,739
31 to 60 days	**2,292**	134
61 to 90 days	**768**	674
91 to 180 days	**161**	–
181 to 365 days	**–**	714
Over 365 days	**–**	2,985
	31,086	37,246

As at 31 December 2018, included in the Group's trade receivables balance, are debtors with aggregate carrying amount of RMB161,000 which are past due as at the reporting date. Out of the past due balances, RMB161,000 has been past due 90 days or more and is not considered as in default as these balances are mainly due from customers of good credit quality. The Group does not hold any collateral over the balances.

As at 31 December 2017, major debtors comprising the Group's trade receivables that are neither past due nor impaired have no default history and of good credit quality.

As at 31 December 2017, included in the Group's trade receivable balances are debtors with a carrying amount of approximately RMB3,699,000 which are past due for over 180 days as at 31 December 2017 for which the Group has not provided for impairment loss as these balances are mainly due from related parties and certain group-buying companies with good credit.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows.

	RMB'000
Balance at 31 December 2017	–
Effect of adoption of HKFRS 9	2,956
Balance at 1 January 2018 and 31 December 2018	2,956

The balances of the Group's other receivables are unsecured, interest-free and repayable on demand. As at 31 December 2018 and 31 December 2017, other receivables of the Group are neither past due nor impaired and they have no default history and there are continuous subsequent settlement.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 34.

26. AMOUNT DUE FROM A RELATED PARTY

Details of the amount due from a related party are as follows:

Name of the related party	2018 RMB'000	2017 RMB'000	Maximum amount outstanding during the year RMB'000
Well Keen International Ltd., a company in which Ms. Poon Wai has controlling interests	**12**	12	12

The amount is unsecured, non-trade related, interest-free and repayable on demand.

As at 31 December 2018 and 31 December 2017, amount due from a related party of the Group are neither past due nor impaired as it has no default history. The Group does not hold collateral over the balance.

27. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

As at 31 December 2018, pledged bank deposits held by the Group amounting to RMB380,000 (2017: RMB380,000) represent utility deposits pledged to banks, which is classified as current assets. Details are set out in Note 37.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three month or less which carry interest at market rates ranging from 0.30% to 3.30% (2017: 0.35% to 4.30%) per annum.

The Group's bank balances and cash that were denominated in United States dollars("US$"), HK$ and other foreign currencies of the relevant group entities were re-translated in RMB and stated for reporting purposes as:

	2018 RMB'000	2017 RMB'000
– US$	**24,233**	15,078
– HK$	**41,966**	133,300
– Others	**2,311**	1,347
	68,510	149,725

Certain bank balances and cash of approximately RMB1,287,897,000 (2017: RMB1,384,378,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

28. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables		
– related companies	**6,143**	6,474
– others	**88,525**	89,348
	94,668	95,822
Payroll and welfare payables	**39,386**	33,651
Customers' deposits received	**12,028**	8,618
Payable for acquisition of property, plant and equipment	**28,259**	15,418
Payable for property rentals	**24,042**	26,376
Other taxes payable	**22,108**	22,645
Others	**26,060**	22,368
	246,551	224,898

The related companies are the companies in which Mr. Katsuaki Shigemitsu, who is a director and shareholder of the Company, has controlling interests.

The average credit period for purchase of goods is 60 days (31 December 2017: 60 days). The following is an ageing analysis of trade payables presented based on invoice dates at the end of the reporting period:

Ageing	2018 RMB'000	2017 RMB'000
0 to 30 days	**62,877**	60,373
31 to 60 days	**24,420**	26,496
61 to 90 days	**537**	1,252
91 to 180 days	**342**	1,221
Over 180 days	**6,492**	6,480
	94,668	95,822

29. AMOUNT(S) DUE TO RELATED COMPANIES/DIRECTORS/A SHAREHOLDER/NON-CONTROLLING INTERESTS/ASSOCIATES

The amount(s) due to related companies/directors/a shareholder/non-controlling interests/associates are unsecured, non-trade related, interest-free and repayable on demand.

Either Ms. Poon or Mr. Katsuaki Shigemitsu has controlling interests in these related companies.

30. BANK BORROWINGS

	2018 **RMB'000**	2017 RMB'000
Secured bank borrowings with carrying amounts repayable:		
Within one year or repayable on demand	**169,598**	269,532
In more than one year but not more than two years	**3,187**	3,104
In more than two years but not more than five years	**9,982**	9,698
In more than five years	**36,744**	37,784
	219,511	320,118
Less: amounts shown as non-current liabilities	**(49,913)**	(50,586)
Amounts shown as current liabilities	**169,598**	269,532

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

The carrying amounts of the Group's bank borrowings are analysed as follows:

Denominated	**in Interest rate**	**2018** **RMB'000**	2017 RMB'000
HK$	HIBOR plus 1.35% (2017: HIBOR plus 1.35%)	**–**	50,155
HK$	Prime rate of the counterparty bank minus 3.25% (2017: prime rate of the counterparty bank minus 3.25%)	**47,873**	48,426
HK$	Prime rate of the counterparty bank minus 2.80% (2017: prime rate of the counterparty bank minus 2.80%)	**5,160**	5,203
HK$	HIBOR plus 1.20% (2017: HIBOR plus 1.20%)	**87,620**	216,334
HK$	HIBOR plus 1.20% (2017: nil)	**78,858**	–
		219,511	320,118

As at 31 December 2018, the weighted average effective interest rate on the bank borrowings was 2.23% (31 December 2017: 1.78%), and are further analysed as follows:

	2018	2017
Denominated in HK$	**2.23%**	1.78%

Detail of the assets of the Group as at 31 December 2018 and 2017 that have been pledged as collateral to secure the general bank facilities of the Group are set out in Note 37.

31. SHARE CAPITAL

	Number of shares	Share capital RMB'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	10,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,091,538,820	108,404

All shares issued during the years ended 31 December 2018 and 31 December 2017 ranked pari passu in all respects with all shares then in issue.

32. SHARE OPTION SCHEMES

The Company adopted its share option scheme (the "Share Option Scheme") and pre-IPO share option scheme (the "Pre-IPO Share Option Scheme").

(a) Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant option to the eligible participants in recognition of their contribution made or to be made to the Group. Under the Share Option Scheme, the board of directors of the Company (the "Board") may offer to grant an option to any director or employee, or any advisor, consultant, individual or entity who in the opinion of the Board has contributed or will contribute to the growth and development of the Group.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an eligible participant in any 12-month period shall not exceed 1% of the number of shares in issue unless approved by shareholders in a general meeting. The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the Shares in issue as the date of approval of the Share Option Scheme, i.e. a total of 100,000,000 shares.

No consideration is payable on the grant of the Company's options. The exercise price of a share in respect of option granted under the Share Option Scheme will be determined by the Board provided that it shall not be less than the higher of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, and (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the 5 business days immediately preceding the date of grant, and (iii) the nominal value of the shares.

32. SHARE OPTION SCHEMES - continued

(a) *Share Option Scheme* - continued

The following table disclosed movements of the Company's shares options under the Share Option Schedule during the years ended 31 December 2018 and 2017.

For the year ended 31 December 2018

Grant date	Exercise price *HK$*	Outstanding at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2018
Employees						
25 June 2008	3.726	40,000	–	–	–	40,000
31 December 2008	3.726	5,000	–	–	–	5,000
3 July 2009	4.938	27,500	–	–	–	27,500
2 July 2010	8.884	328,000	–	–	–	328,000
26 August 2011	5.530	7,242,000	–	–	–	7,242,000
15 October 2012	5.530	400,000	–	–	(287,000)	113,000
2 July 2013	6.310	600,000	–	–	–	600,000
27 August 2013	8.740	1,150,000	–	–	(320,000)	830,000
25 October 2013	8.350	1,050,000	–	–	(50,000)	1,000,000
30 June 2014	6.020	150,000	–	–	–	150,000
25 September 2014	6.450	100,000	–	–	–	100,000
8 January 2015	5.900	150,000	–	–	–	150,000
17 April 2015	5.060	2,200,000	–	–	–	2,200,000
2 July 2015	4.104	2,070,000	–	–	(80,000)	1,990,000
19 July 2017	3.504	2,500,000	–	–	–	2,500,000
1 June 2018 *(note i)*	3.256	–	2,100,000	–	–	2,100,000
6 December 2018 *(note ii)*	2.366	–	1,000,000	–	(1,000,000)	–
		18,012,500	3,100,000	–	(1,737,000)	19,375,500
Directors						
22 January 2009	3.308	137,500	–	–	–	137,500
15 October 2012	5.530	400,000	–	–	–	400,000
		537,500	–	–	–	537,500
		18,550,000	3,100,000	–	(1,737,000)	19,913,000
Exercisable at the end of the year		14,118,540				13,884,500
Weighted average exercise price (HK$)		5.34	2.97	–	4.32	5.06

32. SHARE OPTION SCHEMES - continued

(a) Share Option Scheme - continued

For the year ended 31 December 2017

Grant date	Exercise price HK$	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2017
Employees						
25 June 2008	3.726	40,000	–	–	–	40,000
31 December 2008	3.726	62,500	–	–	(57,500)	5,000
3 July 2009	4.938	27,500	–	–	–	27,500
2 July 2010	8.884	443,000	–	–	(115,000)	328,000
26 August 2011	5.530	9,001,000	–	–	(1,759,000)	7,242,000
15 October 2012	5.530	400,000	–	–	–	400,000
2 July 2013	6.310	600,000	–	–	–	600,000
27 August 2013	8.740	1,210,000	–	–	(60,000)	1,150,000
25 October 2013	8.350	1,050,000	–	–	–	1,050,000
30 June 2014	6.020	150,000	–	–	–	150,000
25 September 2014	6.450	100,000	–	–	–	100,000
8 January 2015	5.900	150,000	–	–	–	150,000
17 April 2015	5.060	2,200,000	–	–	–	2,200,000
2 July 2015	4.104	2,440,000	–	–	(370,000)	2,070,000
19 July 2017	3.504	–	2,500,000	–	–	2,500,000
		17,874,000	2,500,000	–	(2,361,500)	18,012,500
Directors						
22 January 2009	3.308	137,500	–	–	–	137,500
15 October 2012	5.530	400,000	–	–	–	400,000
		537,500	–	–	–	537,500
		18,411,500	2,500,000	–	(2,361,500)	18,550,000
Exercisable at the end of the year		13,772,750				14,118,540
Weighted average exercise price (HK$)		5.56	3.504	–	5.12	5.34

32. SHARE OPTION SCHEMES - continued

(a) Share Option Scheme - continued

The details of the share options granted during the year ended 31 December 2018 are set out below:

Note i: Share options granted on 1 June 2018:

(1) The share options granted under the Share Option Scheme on 1 June 2018 were at an exercise price of HK$3.256 per share.

(2) The exercise period is from 1 June 2018 to 30 May 2028.

(3) For the share options granted on 1 June 2018, the options will be vested in 5 tranches, i.e. the first 20% on 1 June 2019, the second 20% on 1 June 2020, the third 20% on 1 June 2021, the fourth 20% on 1 June 2022 and the remaining 20% on 1 June 2023.

(4) The fair values of the share options of the Company at the grant date were calculated using the Binomial option pricing model. The inputs into the model were as follows:

	Granted on 1 June 2018
Share price	HK$3.160
Exercise price	HK$3.256
Expected volatility	43.51%
Expected life (years)	10 years
Risk-free interest rates	2.15%
Expected dividend yield	2.71%
Exercise multiple	2.2

The closing price of the Company's shares on the date immediately before the date of grant was HK$3.160. The risk-free interest rates were based on the yield of Hong Kong Exchange Fund Note. Expected volatility was determined by using the historical volatility of the Group's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Changes in variables and assumptions may result in changes in fair values of the share options.

Note ii: Share options granted on 6 December 2018:

(1) The share options granted under the Share Option Scheme on 6 December 2018 were at an exercise price of HK$2.366 per share.

(2) The exercise period is from 6 December 2018 to 5 December 2028.

(3) For the share options granted on 6 December 2018, the options will be vested in 5 tranches, i.e. the first 20% on 25 October 2020, the second 20% on 25 October 2021, the third 20% on 25 October 2022, the fourth 20% on 25 October 2023 and the remaining 20% on 25 October 2024.

As at 31 December 2018, all the share options granted on 6 December 2018 has been forfeited.

The Group recognised the total expense of RMB1,947,000 (2017: RMB2,226,000) for the year ended 31 December 2018 in relation to share options granted by the Company under the Share Option Scheme. The Group transferred the expense of RMB3,916,000 (2017: RMB10,074,000) which was previously recognised to retained earnings because the share options were forfeited after the vesting date.

32. SHARE OPTION SCHEMES - continued

(b) *Pre-IPO Share Option Scheme*

The purpose and the principal terms of the Pre-IPO Share Option Scheme, save as:

(i) the exercise price per share is 85% of the final offer price per share upon listing of the Company;

(ii) no option granted under the Pre-IPO Share Option Scheme will be exercisable within twelve months from the listing date; and

(iii) no further option will be offered or granted under the Pre-IPO Share Option Scheme after the listing of the Company.

	Number of Options								
Grantees	Outstanding at 1 January 2017	Exercise during the year	Forfeited during the year	Lapsed during the year	Outstanding at 31 December 2017	Exercise during the year	Forfeited during the year	Lapsed during the year	Outstanding at 31 December 2018
Employees	386,000	–	(386,000)	–	–	–	–	–	–

33. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018	2017
	RMB'000	RMB'000
Non-current assets		
Interests in a subsidiary	**60,506**	60,506
Amount due from subsidiaries	**367,451**	419,488
	427,957	479,994
Current assets		
Amounts due from subsidiaries	**132,997**	151,831
Bank balances and cash	**837**	5,145
	133,834	156,976
Current liabilities		
Other payables	**2,927**	2,658
Bank borrowings	**87,620**	107,667
Dividend payable	**26**	24
	90,573	110,349
Net current assets	**43,261**	46,627
Total assets less current liabilities	**471,218**	526,621
Capital and reserves		
Share capital	**108,404**	108,404
Reserves *(note i)*	**362,814**	418,217
Total equity	**471,218**	526,621

33. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Note i: Reserves

	Share premium RMB'000	Share options reserve RMB'000	Special reserve RMB'000 *(note)*	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	1,887,197	73,660	(320,594)	(1,074,602)	565,661
Total comprehensive expense for the year	–	–	–	(38,230)	(38,230)
Recognition of equity-settled share-based payments	–	2,226	–	–	2,226
Transfer on forfeiture of share options	–	(10,074)	–	10,074	–
Dividends recognised as distribution *(Note 13)*	–	–	–	(111,440)	(111,440)
At 31 December 2017	1,887,197	65,812	(320,594)	(1,214,198)	418,217
Total comprehensive income for the year	–	–	–	15,535	15,535
Recognition of equity-settled share-based payments	–	1,947	–	–	1,947
Transfer on forfeiture of share options	–	(3,916)	–	3,916	–
Dividends recognised as distribution *(Note 13)*	–	–	–	(72,885)	(72,885)
At 31 December 2018	1,887,197	63,843	(320,594)	(1,267,632)	362,814

Note: A debit amount of approximately RMB321 million represents the aggregate amount of the consideration which was settled by the Company with (i) cash consideration of approximately RMB184 million and (ii) share consideration of approximately RMB137 million for the acquisition of Luck Right and its subsidiaries from Ms. Poon in 2008.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

Financial assets	2018 RMB'000	2017 RMB'000
Financial assets at amortised cost	**1,762,389**	–
Loan and receivables	**–**	1,589,953
Available-for-sale investments	**–**	6,906
Financial assets designated as at FVTPL	**–**	245,487
Financial assets at FVTPL	**310,362**	–
	2,072,751	1,842,346
Financial liabilities		
Liabilities measured at amortised cost	**505,210**	549,764
Financial liabilities at FVTPL	**132,747**	–
	637,957	549,764

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, financial assets designated as at FVTPL, available-for-sale investments, loan to an associate, long term receivables, trade and other receivables, amount due from a related party, bank balances and cash, pledged bank deposits, trade and other payables, amounts due to related companies/a shareholder/directors/non-controlling interests/associates, bank borrowings and financial liabilities at FVTPL. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group's exposure to foreign currency risk is arising mainly from the bank balances of the Group and inter-company balances of certain Hong Kong operating subsidiaries which are denominated in foreign currencies of the relevant group entities. Except for the bank balances and inter-company balances denominated in foreign currencies of the relevant group entities, the group entities did not have any other monetary assets or liabilities denominated in foreign currencies as at the end of the reporting period.

The carrying amounts of the Group's bank balances that are denominated in foreign currency of group entities, representing US$, as at 31 December 2018 and 31 December 2017 are approximately RMB18,791,000 and RMB15,078,000, respectively.

34. FINANCIAL INSTRUMENTS - continued

(b) *Financial risk management objectives and policies* - continued

Currency risk - continued

The carrying amounts of inter-company balances of certain Hong Kong operating subsidiaries that are denominated in foreign currency of group entities, representing RMB, as at 31 December 2018 and 31 December 2017 are approximately RMB301,000,000 and RMB301,000,000, respectively.

The Group currently does not have a foreign currency hedging policy but the directors of the Company monitor foreign exchange exposure by closely monitoring the foreign exchange risk profile by way of arrangement of foreign currency forward contracts and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

This sensitivity analysis details the Group's sensitivity to a 5% appreciation and depreciation in each relevant foreign currencies (US$ or RMB) against functional currencies, RMB or HK$ 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year and a negative number below indicates a decrease in post-tax profit for the year where the relevant foreign currencies fluctuate 5% against RMB.

	2018	2017
	RMB'000	RMB'000
US$ impact *(note)*		
– US$ strengthens against RMB by 5%	**705**	565
– US$ weakens against RMB by 5%	**(705)**	(565)

	2018	2017
	RMB'000	RMB'000
RMB impact		
– RMB strengthens against HK$ by 5%	**(12,567)**	(12,567)
– RMB weakens against HK$ by 5%	**12,567**	12,567

Note: The directors of the Company consider that exposure of the Group's HK operating subsidiaries to US$ is insignificant as that HK$ is pegged to US$.

The Group has no outstanding foreign currency forward contracts as at 31 December 2018 and 31 December 2017.

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the reporting period end exposures do not reflect the exposure during the year.

Interest rate risk

As at 31 December 2018 and 31 December 2017, the Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see Note 27 and 30 for details of these balances). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

34. FINANCIAL INSTRUMENTS - continued

(b) *Financial risk management objectives and policies* - continued

Interest rate risk - continued

Sensitivity analysis - continued

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing financial instruments at the end of each reporting period assuming the financial instruments existed at the end of each reporting period were outstanding for the whole year.

A 15 basis point increase or decrease in interest rate for variable-rate bank balances outstanding as at 31 December 2018 and 50 basis point increase or decrease in interest rate for variable bank borrowings for the year ended 31 December 2018 represent management's assessment of the reasonably possible change in interest rates.

For the year ended 31 December 2018, if the interest rate on bank balances had been 15 basis points higher or lower and all other variables were held constant, the Group's post-tax profit would increase or decrease approximately RMB1,528,000 (2017: RMB1,752,000).

For the year ended 31 December 2018, if interest rates of bank borrowings had been 50 basis points higher or lower and all other variables were held constant, the Group's post-tax profit would decrease or increase approximately RMB708,000 (2017: RMB1,125,000).

Credit risk and impairment assessment

As at 31 December 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

the Group's principal financial assets are financial assets at FVTPL, long term receivables, trade and other receivables, amount due from a related party, pledged bank deposits, and bank balances and cash.

The Group's credit risk is primarily attributable to its trade and other receivables. As at 31 December 2018, the five largest trade receivables, including four (2017: four) based in the PRC and one (2017: one) based in Hong Kong who are engaged in sales of consumer products accounted for approximately 34.5% (2017: 47.4%) of total trade receivables (net of allowance). In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

34. FINANCIAL INSTRUMENTS - continued

(b) *Financial risk management objectives and policies* - continued

Credit risk and impairment assessment - continued

Under HKAS 39, provisions for impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 January 2018, the Group recognises lifetime ECL as prescribed by HKFRS 9 under simplified approach on trade receivables; and recognises 12m ECL on other receivables. To measure the ECL of trade receivables, they are assessed collectively using provision matrix based on shared characteristics including historical credit loss experience, industry specific factors to the debtors, general economic conditions and the available and supportive forward-looking information, including time value of money where appropriate. To measure the ECL of other receivables, they are assessed individually on the recoverability based on historical settlement records, past experience, and also the available and supportive forward-looking information.

The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of trade and other receivables.

For long term receivables and amount due from a relate party, the management of the Group makes periodic individual assessment on the recoverability of long term receivables and amount due from a relate party based on historical settlement records, and also available reasonable and supportive forward-looking information starting from 1 January 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of the long term receivables and amount due from a relate party.

There is concentration of credit risk on bank balances and cash for the Company as at 31 December 2018 and 31 December 2017. As at 31 December 2018, balances with three (2017: three) largest banks accounted for 35% (2017: 37%) of the aggregate amount of pledged bank deposits and bank balances and cash (2017: pledged bank deposits, bank balances and cash) of the Group. The credit risk on liquid funds is limited because majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state owned banks with good reputation.

34. FINANCIAL INSTRUMENTS - continued

(b) *Financial risk management objectives and policies* - continued

Credit risk and impairment assessment - continued

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

As at 31 December 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL and determined that the trade receivables is not credit-impairment. For other financial assets, the Group measure the loss allowance at 12-month ECL.

Liquidity risk management

The directors of the Company have adopted a liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

34. FINANCIAL INSTRUMENTS - continued

(b) *Financial risk management objectives and policies* - continued

Liquidity risk management - continued

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows on financial liabilities based on the earliest date in which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	On demand or less than six months	Six months to one year	One year to five years	Over five years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2018							
Financial liabilities							
Trade and other payables	–	**224,443**	–	–	–	**224,443**	**224,443**
Amounts due to related companies	–	**4,428**	–	–	–	**4,428**	**4,428**
Amounts due to directors	–	**906**	–	–	–	**906**	**906**
Amount due to a shareholder	–	**30,274**	–	–	–	**30,274**	**30,274**
Amounts due to non-controlling interests	–	**13,532**	–	–	–	**13,532**	**13,532**
Amounts due to associates	–	**12,116**	–	–	–	**12,116**	**12,116**
Financial liabilities at FVTPL	–	–	–	**132,747**	–	**132,747**	**132,747**
Bank borrowings-variable interest rate	**2.23%**	**4,173**	**170,651**	**17,179**	**39,576**	**231,579**	**219,511**
		289,872	**170,651**	**149,926**	**39,576**	**650,025**	**637,957**

	Weighted average effective interest rate	On demand or less than six months	Six months to one year	One year to five years	Over five years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017							
Financial liabilities							
Trade and other payables	–	170,799	–	–	–	170,799	170,799
Amounts due to related companies	–	5,071	–	–	–	5,071	5,071
Amounts due to directors	–	441	–	–	–	441	441
Amount due to a shareholder	–	27,756	–	–	–	27,756	27,756
Amounts due to non-controlling interests	–	13,516	–	–	–	13,516	13,516
Amounts due to associates	–	12,063	–	–	–	12,063	12,063
Bank borrowings-variable interest rate	1.78%	4,600	271,089	16,389	41,852	333,930	320,118
		234,246	271,089	16,389	41,852	563,576	549,764

34. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets.

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ liabilities	Fair value as at 31/12/2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets at FVTPL	**RMB236,120,000**	Level 2	The issue prices for recently issued shares of each investment	N/A
Financial assets at FVTPL	**RMB74,242,000**	Level 3	Income approach-in this approach the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of the investee based on an appropriate discount rate.	Long-term revenue growth rates, taking into account management's experience and knowledge of market conditions of the specific industries, being 2% (note 1). Discount rate, taking into account of weighted average cost of capital (WACC) determined using a Capital Asset Pricing Model, being 10.7% (note 2).
Financial liabilities at FVTPL	**RMB132,747,000**	Level 3	Based on the net asset values/ fair value of the underlying investments, which are determined by market approach and adjustments of related expenses.	These underlying investments are not publicly traded in an open market. Therefore, the fair value of these investments were determined with reference 1) the issue prices for recently issued shares of each investment and 2) discounted cash flow method. (notes 1, 2).

Note 1: Any increases (decreases) in long-term revenue growth rate would result in an increase (decrease) in fair value.

Note 2: Any increases (decreases) in discount rate would result in a decrease (increase) in fair value.

Financial assets	Fair value as at 31/12/2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets designated as at FVTPL	RMB245,487,000	Level 3	Market approach-a valuation technique that uses prices and other relevant information obtained from market transactions.	These investments are not publicly traded in an open market. Therefore, the fair value of these investments were determined with reference to the issue prices for recently issued shares of each investment, taking into consideration any adjustment factors for the period since the date of recent issuance up to 31 December 2017. A slightly increase in the adjustment factors would result in a significant increase in the fair value measurement of these investments, and vice versa.

There were no transfers between Level 1 and 2 during the year.

34. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

(iii) Reconciliation of Level 3 fair value measurements

	Available-for-sale investments, at fair value RMB'000	Financial assets designated as at FVTPL RMB'000	Financial assets at FVTPL RMB'000	Financial liabilities at FVTPL RMB'000	Total RMB'000
At 1 January 2017	45,522	1,272,943	–	–	1,318,465
Exchange alignment	–	(43,093)	–	–	(43,093)
Addition	–	39,578	–	–	39,578
Disposal	–	(88,882)	–	–	(88,882)
Reclassification	(45,522)	–	–	–	(45,522)
Loss on fair value change	–	(935,059)	–	–	(935,059)
At 31 December 2017	–	245,487	–	–	245,487
Reclassification of financial assets from financial assets	–	–	245,487	–	245,487
Reclassification of financial assets from available-for-sale investments	–	–	6,906	–	6,906
Remeasurement from cost less impairment to fair value	–	–	(2,664)	–	(2,664)
At 1 January 2018 (restated)	–	–	249,729	–	249,729
Exchange alignment	–	–	2,050	–	2,050
Addition	–	–	124,120	(83,470)	40,650
Disposal	–	–	(77,073)	–	(77,073)
Gain (loss) on fair value change	–	–	11,536	(49,277)	(37,741)
Transfer out of Level 3	–	–	(236,120)	–	(236,120)
At 31 December 2018	–	–	74,242	(132,747)	(58,505)

As at 31 December 2018, of the total losses for the year included in profit or loss, RMB49,277,000 and nil relates to financial liabilities and assets at FVTPL held at the end of the current reporting period respectively. Fair value gains or losses on financial assets at FVTPL and financial liabilities at FVTPL are included in 'other gains and losses'.

As at 31 December 2017, of the total losses for the year included in profit or loss, RMB935,059 relates to financial assets designated as at FVTPL held at the end of the current reporting period. Fair value gains or losses on financial assets designated as at FVTPL are included in 'other gains and losses'.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt (bank borrowings as detailed in Note 30 offset by bank balances and cash) and equity attributable to owners of the Company comprising share capital and reserves as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues of the Company as well as the raising of bank borrowings.

36. CAPITAL COMMITMENTS

	2018	2017
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of		
– property, plant and equipment	**14,716**	84,883
– Interest in a joint venture	**–**	7,429
	14,716	92,312

37. PLEDGE OF ASSETS

	2018	2017
	RMB'000	RMB'000
Investment properties	**399,284**	284,042
Property, plant and equipment	**5,511**	15,200
Prepaid lease payments	**6,955**	14,929
Pledged bank deposits	**380**	380
	412,130	314,551

38. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of each reporting period, the Group was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**307,171**	280,215
In the second to fifth year inclusive	**555,567**	487,593
Over five years	**14,081**	20,518
	876,819	788,326

The leases are negotiated for terms from two to ten years.

In respect of certain leases, the Group is committed to pay a minimum fixed rental payment plus additional rent on certain percentage of sales whenever the Group's sales achieved prescribed amounts as specified in relevant rental agreements.

The Group as lessor

The Group's properties with carrying amounts of approximately RMB679,874,000 (2017: RMB492,042,000) were held for rental purposes. These properties are expected to generate an annualised rental yield of approximately 3.9% (2017: 4.8%) on an ongoing basis.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments in respect of premises rented out:

	2018	2017
	RMB'000	RMB'000
Within one year	**47,271**	20,502
In the second to fifth year inclusive	**60,534**	52,535
Over five years	**33,401**	35,306
	141,206	108,343

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to related companies RMB'000	**Amounts due to directors RMB'000**	**Amounts due to a shareholder RMB'000**	**Amounts due to non-controlling interests RMB'000**	**Amounts due to associates RMB'000**	**Dividend payable RMB'000**	**Bank borrowings RMB'000**	**Total RMB'000**
At 1 January 2018	**5,071**	**441**	**27,756**	**13,516**	**12,063**	**24**	**320,118**	**378,989**
Financing cash flows	**(643)**	**465**	**2,518**	**–**	**53**	**(74,598)**	**(122,541)**	**(194,746)**
Foreign exchange translation	**–**	**–**	**–**	**16**	**–**	**1,715**	**15,430**	**17,161**
Dividends recognised as distribution	**–**	**–**	**–**	**–**	**–**	**72,885**	**–**	**72,885**
Interest expenses	**–**	**–**	**–**	**–**	**–**	**–**	**6,504**	**6,504**
At 31 December 2018	**4,428**	**906**	**30,274**	**13,532**	**12,116**	**26**	**219,511**	**280,793**

	Amounts due to related companies RMB'000	Amounts due to directors RMB'000	Amounts due to a shareholder RMB'000	Amounts due to non-controlling interests RMB'000	Amounts due to associates RMB'000	Dividend payable RMB'000	Bank borrowings RMB'000	Total RMB'000
At 1 January 2017	5,168	471	27,564	13,943	4,602	26	294,940	346,714
Financing cash flows	(97)	(30)	192	–	7,461	(107,667)	38,953	(61,188)
Foreign exchange translation	–	–	–	(427)	–	(3,775)	(19,321)	(23,523)
Dividends recognised as distribution	–	–	–	–	–	111,440	–	111,440
Interest expenses	–	–	–	–	–	–	5,546	5,546
At 31 December 2017	5,071	441	27,756	13,516	12,063	24	320,118	378,989

40. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate the Mandatory Provident Fund (the MPF) in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustee. The Group operates the MPF Scheme for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of RMB1,299 (HK$1,500) per month or 5% of the relevant payroll costs to the MPF Scheme.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The total cost charged to profit or loss for the year is approximately RMB67,211,000 (2017: RMB66,661,000) and as at 31 December 2018, amounts due to the MPF and state-managed retirement plans included in trade and other payables is approximately RMB684,000 (as at 31 December 2017: RMB1,182,000).

41. RELATED PARTY TRANSACTIONS

(a) During the year, the Group has the following significant transactions with related parties:

Relationship with related party	Nature of transaction	2018 RMB'000	2017 RMB'000
Shigemitsu Industry Co., Ltd., a company Mr. Katsuaki Shigemitsu has controlling interests	Sales of noodles and related products	**1,025**	806
	Purchases of raw materials	**39,371**	35,820
	Franchise commissions		
	– for restaurant operating in Hong Kong	**(1,216)**	(1,161)
	– for restaurant operating in the PRC	**(27,227)**	(24,864)
	Technical fee	**(662)**	(623)
Ajisen Overseas Franchising Co., Ltd. a company Mr. Katsuaki Shigemitsu has controlling interests	Franchise commissions	**(40)**	–
Ms. Poon	Property rentals	**(2,365)**	(1,964)
Companies in which Mr. Poon Ka Man, Jason, a director of the Company, has controlling interests	Decoration expenses	**(2,638)**	(2,891)
Japan Foods Holding Ltd., non-controlling interests of a subsidiary	Franchise commissions	**(2,004)**	(812)
Katrina International Pte Ltd., non-controlling shareholder of a subsidiary of the Company	Franchise commissions	**(512)**	–

(b) The remuneration of directors of the Company and other members of key management during the year was as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**5,555**	6,474
Retirement benefits scheme contributions	**140**	135
Share-based payment	**794**	72
	6,489	6,681

The remuneration of directors and key executives is determined by the remuneration committee of the Company having regard to the performance of individual and market trends.

42. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2018 and 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Proportion of ownership Interest/ voting Rights held by the Company		Principal activities
			2018	2017	
Ajisen International *(note 1)*	British Virgin Islands	US$1,000	**100%**	100%	Investment holding
Ajisen (Hong Kong) Limited	British Virgin Islands	US$990	**100%**	100%	Investment holding
Ajisen Investments Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
Ajisen China Group Management Limited	Hong Kong	HK$10,000	**100%**	100%	Provision of management services to group companies
Brilliant China Holdings Limited	Hong Kong	HK$10,000	**100%**	100%	Operating the Group's Hong Kong office and food processing Ajisen factory
Colour Wave Development Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Festive Profits Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
Fortune Choice Limited	Hong Kong	HK$10,000	**100%**	100%	Holding company of Shenzhen factory and trading of noodles
Gold Regent Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Hong Kong Ajisen Co., Ltd.	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Hong Kong Ajisen Food Company Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Nice Concept Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Long Wave Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant

42. PRINCIPAL SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Proportion of ownership Interest/ voting Rights held by the Company 2018	2017	Principal activities
Ocean Talent Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Pacific Smart Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Seamax Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Sunny Pearl Investment Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Top Overseas Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Wintle Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Well Good Limited	Hong Kong	HK$10,000	**100%**	100%	Operating an Ajisen chain restaurant
Ajisen International Limited	Hong Kong	US$1,000	**80%**	80%	Operating Ajisen sub-franchise restaurants in Europe
Colour Rise Limited	Hong Kong	HK$10,000	**80%**	80%	Operating Ajisen sub-franchise restaurants in Europe
Big Benefit Group Limited	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
So Pho International Limited	British Virgin Islands	US$100	**70%**	70%	Investment holding
Fully Brave Limited	Hong Kong	HK$10,000	**70%**	70%	Investment holding
領先食品(上海)發展有限公司 Lead Food (Shanghai) Development Co. Ltd.	PRC wholly foreign owned enterprise	US$1,200,000	**100%**	100%	Operating a noodle factory in Shanghai, the PRC

42. PRINCIPAL SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Proportion of ownership Interest/ voting Rights held by the Company 2018	2017	Principal activities
上海領先餐飲管理有限公司 Shanghai Lead Food & Restaurant Management Co. Ltd.	PRC wholly foreign owned enterprise	US$20,000,000	**100%**	100%	Investment holding and operating Ajisen chain restaurants in Shanghai, the PRC
南京味千餐飲管理有限公司 Nanjing Weiqian Food & Restaurant Management Co. Ltd.	PRC sino-foreign equity joint venture	RMB30,000,000	**100%**	100%	Operating Ajisen chain restaurants in Nanjing, the PRC
杭州味千餐飲管理有限公司 Hangzhou Weiqian Food & Restaurant Management Co. Ltd.	PRC sino-foreign equity joint venture	RMB20,000,000	**100%**	100%	Operating Ajisen chain restaurants in Hangzhou, the PRC
山東味千餐飲管理有限公司 Shandong Weiqian Food & Restaurant Management Co. Ltd. (Note 3)	PRC limited liability enterprise	RMB10,000,000	**100%**	55%	Operating Ajisen chain restaurants in Shandong, the PRC
北京味千餐飲管理有限公司 Beijing Weiqian Food & Restaurant Management Co. Ltd.	PRC sino-foreign equity joint venture	US$2,200,000	**55%**	55%	Operating Ajisen chain restaurants and food processing centre in Beijing, the PRC
重慶味千餐飲文化有限公司 Chongqing Weiqian Food & Culture Management Co. Ltd.	PRC limited liability enterprise	RMB1,500,000	**100%**	100%	Operating Ajisen chain restaurants in Chongqing, the PRC
大連味千餐飲有限公司 Dalian Weiqian Food Co., Ltd.	PRC limited liability enterprise	RMB500,000	**51%**	51%	Operating Ajisen chain restaurants in Dalian, the PRC
味千拉麵飲食服務(深圳)有限公司 Weiqian Noodle Food Service (Shenzhen) Co., Ltd.	PRC limited liability enterprise	RMB210,000	**100%**	100%	Operating Ajisen chain restaurants in Guangdong province, Wuhan and Chengdu, the PRC
領鮮食品(上海)有限公司 Lingxian Food (Shanghai) Co., Ltd.	PRC limited liability enterprise	US$15,000,000	**100%**	100%	Operating a noodle factory in Shanghai, the PRC

42. PRINCIPAL SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Proportion of ownership Interest/ voting Rights held by the Company 2018	2017	Principal activities
味千拉麵深圳有限公司 Weiqian Noodle (Shenzhen) Co., Ltd.	PRC wholly foreign owned enterprise	RMB18,437,000	**100%**	100%	Operating a noodle factory in Shenzhen, the PRC
領馳食品發展(上海)有限公司 Lingchi Food Development (Shanghai) Co., Ltd.	PRC wholly foreign owned enterprise	US$20,000,000	**100%**	100%	Operating a noodle factory in Shanghai, the PRC
東莞領馳食品有限公司 Donguan Lingchi Food., Ltd.	PRC wholly foreign owned enterprise	US$20,000,000	**100%**	100%	Operating a noodle factory in Dongguan, the PRC
青島領馳食品有限公司 Qingdao Lingchi Food Co., Ltd. (Note 3)	PRC wholly foreign owned Enterprise	RMB$3,000,000	**100%**	55%	Operating a noodle factory in Shandong, the PRC
上海領食餐飲管理有限公司 Shanghai Lingshi Food & Restaurant Management Co., Ltd. (Note 2)	PRC wholly foreign owned Enterprise	US$1,000,000	**70%**	N/A	Operating So Pho chain restaurants in shanghai, the PRC
Hina Group Fund III, Limited Partnership	Cayman Islands limited partnership	US$70,000,000	**86%**	86%	Investment holding
Shanghai JingJing Investment Center (Limited Partnership)	PRC limited partnership	RMB115,010,000 (2017: RMB100,010,000)	**52%**	50%	Investment holding
Jiahua Mingde (Tianjin) Enterprise Management and Consulting partnership (Limited Partnership)	PRC limited partnership	RMB70,010,000	**71.4%**	71.4%	Investment holding

Note 1: This company was directly held by the Company.

Note 2: This company was newly established by the Group during the year.

Note 3: The Group acquired the equity of interest of these companies formerly held by non-controlling shareholders during the year, and as such these companies became wholly-owned subsidiaries of the Group.

42. PRINCIPAL SUBSIDIARIES - continued

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all the subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

43. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a written resolution of the Company on 14 January 2019, the Company granted 55,000 share options at an exercise price of HK$2.214 each to subscribe for one ordinary share of HK$0.10 each of the Company to certain employees of the Company. The Company is in the process to estimate the impact of the grant to the consolidated financial statements of the Group. Up to the date of issuance of the consolidated financial statements, these newly granted share options remained outstanding.

44. OTHER MATTER

As disclosed in the Company's announcements dated 14 December 2018 and 19 March 2019, the Company has recently discovered that Mr. Lau Ka Ho, Robert (劉家豪) ("Mr. Lau"), the former chief financial officer of the Company, is suspected to have misappropriated certain funds of the Group (the "Incident"). The Company has conducted a detailed review of its banking records to ascertain the extent of the misappropriation of the Group's funds by Mr. Lau. Based on such records obtained by the Company and its internal assessment, the Company believes that an aggregate amount of up to approximately HK$23,637,000 (net of salaries and bonuses paid to Mr. Lau) has been misappropriated by Mr. Lau by way of fraudulent cheques in the period from January 2012 to November 2018. In the opinion of the directors of the Company, the Incident does not impact on the day-to-day operations of the Group and does not have a material adverse effect on its cash flow, financial position and business operations.

The Company has engaged an independent consultancy firm to conduct an investigation into the Incident, and to conduct a review of the Company's internal control procedures and systems and make recommendations to the Board to address and rectify the weaknesses identified, if any. As at the date of the issuance of the consolidated financial statements, the investigation and review are still ongoing.

Properties Held for Investment

Name/Location		Type	Carrying values in existing state at 31 December 2018 RMB'000	Lease term
1.	Workshops 1 to 24 on 10/F and Car Parking Space No. 52 on Level 3, Wah Yiu Industrial Centre, Nos. 30-32 Au Pui Wan Street, Shatin, New Territories, Hong Kong	C	101,201	Medium-term lease
2.	Storage B on Base Floor, Storages/Workshops B on G/F and 1/F, Workshops B on 1/F, 3/F 5/F and Roof B, Storage B on B/F Ajisen Group Tower, Nos. 24-26 Sze Shan Street, Yau Tong, Kowloon, Hong Kong	C	194,429	Medium-term lease
3.	Shop 5, G/F, Wo Fung Court, No. 8 Wo Fung Street, Luen Wo Market, Fanling, New Territories, Hong Kong	C	16,034	Medium-term lease
4.	9/F, Tower 2, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong	C	87,620	Medium-term lease
5.	Unit 3101, 31/F, Golden Bell Plaza, No. 98 Huaihai Zhong Road, Luwan District, Shanghai, the PRC	C	46,300	Medium-term lease
6.	Room 51801 and 51802, 18/F Unit 5, Block 1, Wangzuo Guojicheng, No. 1 Tongyan Road, Gaoxin District, Xi'an City Shaanxi Province, the PRC	C	6,090	Medium-term lease

Properties Held for Investment

Name/Location		Type	Carrying values in existing state at 31 December 2018 RMB'000	Lease term
7.	Unit 2602, 22/F, Full Town No. 9 Dongsanhuan Zhong Road, Chaoyang District Beijing City, the PRC	C	11,700	Medium-term lease
8.	Units 903 to 908, Block A, Xinian Centre, Tairanjiu Road, Shennan Da Road South, Futian District, Shenzhen City, Guangdong Province, the PRC	C	16,100	Medium-term lease
9.	Units 2110 to 2116, 2118, 2121, 2214 and Two Underground Car Parking spaces, No. 1399 Haining Road, Zhabei District, Shanghai City, the PRC	C	10,400	Medium-term lease
10.	An Industry Property located at 398 Yongan Road, Ande Town Industrial Zone, Pi County, Chengdu City, Sichuan Province, The PRC	C	4,900	Medium-term lease
11.	No. 2, Block D, No. 951 Xinfei Road, Songjiang District, Shanghai City, The PRC	C	20,300	Medium-term lease
12.	Units B-613, 614, A-1216 and A-1217, Tai'an Court, Tairan Nineth Road, Futian District, Shenzhen City, Guangdong Province, The PRC	C	13,300	Medium-term lease
13.	Unit 4206-4207, No. 67 Zhujiang Road, Xuanwu District, Nanjing City, Jiangsu Province, the PRC	C	12,500	Medium-term lease

Name/Location		Type	Carrying values in existing state at 31 December 2018 RMB'000	Lease term
14.	Unit B of Block 11, No. 951 Xinfei Road Songjiang District, Shanghai City, The PRC	C	16,700	Medium-term lease
15.	Certain Parcels of vacant land and an industrial property located at No. 2285 Jiangchuan Road, Minhang District, Shanghai City, the PRC	C	34,100	Medium-term lease
16.	Shop 2, Level 2, Block A and Shop 4 Level 2, Block C, Hua Ye Commercial and Residential Estate, No. 65 Meijiang 2nd Road, Jiangnan District, Meizhou City, Guangdong Province, the PRC,	C	18,000	Medium-term lease
17.	Various Protions of level 1 to 3 Block 1, Xinguang Road, Phase III Jinhe Industrial District, Jinhe Community District, Zhangmutou Town, Dongguan City, Guangdong Province, the PRC	C	5,400	Medium-term lease
18.	Site No.1, Xinguang Road, Phase III Jinhe Industrial District, Jinhe Community District, Zhangmutou Town, Dongguan City, Guangdong Province, the PRC	C	10,200	Medium-term lease
19.	115, podium of Dingcheng Building, Zhonghangyuan, Zhenhua Road, Futian District, Shenzhen City, Guangdong Province, the PRC	C	36,100	Medium-term lease
20.	Unit 2-1, 2-2, 2-3 and 2-5, Block 5, No. 88 Wuxing Street, Liouzhou City, Zhuang Autonomous Region, Guangxi Province, the PRC	C	18,500	Medium-term lease

Type of properties: C- commercial

Note: These property interests are 100% attributable to the Group.

Financial Summary

	Year ended 31 December				
	2014	**2015**	**2016**	**2017**	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Turnover	2,614,896	2,545,055	2,379,096	2,332,283	**2,377,745**
Profit (Loss) before taxation	329,802	295,603	926,845	(533,862)	**673,865**
Taxation	(94,570)	(90,322)	(156,662)	(50,793)	**(108,525)**
Profit (Loss) for the year	235,232	205,281	770,183	(584,655)	**565,340**
Attributable to:					
– owners of the Company	217,021	184,558	665,292	(486,650)	**551,020**
– non-controlling interests	18,211	20,723	104,891	(98,005)	**14,320**
	235,232	205,281	770,183	(584,655)	**565,340**
ASSETS AND LIABILITIES					
Total assets	3,282,056	3,896,438	4,415,525	3,673,422	**4,137,947**
Total liabilities	(530,988)	(977,264)	(796,472)	(727,473)	**(832,203)**
Net assets	2,751,068	2,919,174	3,619,053	2,945,949	**3,305,744**

大骨熬湯五十年

JAPAN	PHILIPPINE
KUMAMOTO	VIETNAM
CHINA	USA
AUSTRALIA	MALAYSIA
SINGAPORE	CANADA
THAILAND	CAMBODIA
MONGOLIA	ITALY

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