迪信通

北京迪信通商貿股份有限公司

Beijing Digital Telecom Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6188)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND RESUMPTION OF TRADING

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018:

Revenue of the Group was RMB15,054,664,000, representing a decrease of 5.76% from last year.

Net profit attributable to the owners of the parent of the Company was RMB329,536,000, representing an increase of 2.19% from last year.

Basic earnings of each Share was RMB0.49 per share, representing an increase by RMB0.01 per share from last year.

The Board did not recommend any final dividend for the year ended 31 December 2018.

The board (the "**Board**") of directors (the "**Directors**") of Beijing Digital Telecom Co., Ltd. (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**" or "**we**") for the year ended 31 December 2018, together with comparable figures for the same period in 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
CONTINUING OPERATIONS			
REVENUE	*3*	**14,957,133**	15,754,368
Cost of sales		**(13,042,383)**	(13,761,990)
Gross profit		**1,914,750**	1,992,378
Other income and gains	*3*	**97,996**	56,427
Selling and distribution expenses		**(992,508)**	(1,065,825)
Administrative expenses		**(359,889)**	(349,158)
Impairment losses on financial assets		**(27,510)**	(18,818)
Other expenses		**(52,532)**	(33,482)
Finance costs		**(192,106)**	(182,741)
Share of profits/(losses) of:			
Joint ventures		**(4,253)**	4,934
Associates		**894**	(3,286)
PROFIT BEFORE TAX		**384,842**	400,429
Income tax expense	*4*	**(78,633)**	(77,940)
CONTINUING OPERATION			
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**306,209**	322,489
DISCONTINUED OPERATION			
PROFIT FOR THE YEAR FROM A DISCONTINUED OPERATION	*5*	**15,892**	458
PROFIT FOR THE YEAR		**322,101**	322,947
Attributable to:			
Owners of the parent		**329,536**	322,490
Non-controlling interests		**(7,435)**	457
		322,101	322,947
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted (RMB)	*7*		
For profit for the year		**0.49**	0.48
For profit from continuing operations		**0.48**	0.48

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

Year ended 31 December 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
PROFIT FOR THE YEAR		**322,101**	322,947
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**836**	–
Share of other comprehensive gain/(loss) of joint ventures		**151**	(1,075)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**987**	(1,075)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**1,601**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**1,601**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**2,588**	(1,075)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**324,689**	321,872
Attributable to:			
Owners of the parent		**331,792**	321,415
Non-controlling interests		**(7,103)**	457
		324,689	321,872

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**130,744**	132,150
Goodwill		**72,646**	57,476
Other intangible assets		**7,492**	328
Investments in joint ventures		**74,313**	76,840
Investments in associates		**37,114**	10,091
Equity investments designated at fair value through other comprehensive income		**41,713**	–
Available-for-sale investments		**–**	10,845
Deferred tax assets		**40,892**	35,624
Loan receivables		**16,472**	54,217
Total non-current assets		**421,386**	377,571
CURRENT ASSETS			
Inventories		**2,541,787**	2,297,599
Properties under development		**–**	82,121
Completed properties held for sale		**–**	119,594
Trade and bills receivables	8	**2,172,337**	1,986,806
Prepayments, other receivables and other assets		**1,331,443**	1,357,765
Loan receivables		**40,640**	300,000
Due from the controlling shareholder		**35,000**	–
Due from related parties		**168,711**	53,887
Available-for-sale investments		**–**	210,000
Pledged deposits		**660,251**	953,421
Cash and cash equivalents		**708,548**	614,879
Total current assets		**7,658,717**	7,976,072
CURRENT LIABILITIES			
Trade and bills payables	9	**484,876**	431,935
Other payables and accruals		**341,922**	379,215
Interest-bearing bank and other borrowings		**3,066,638**	3,147,184
Due to related parties		**4,253**	2,301
Tax payable		**348,709**	285,124
Total current liabilities		**4,246,398**	4,245,759
NET CURRENT ASSETS		**3,412,319**	3,730,313
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,833,705**	4,107,884

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**–**	596,542
NET ASSETS		**3,833,705**	3,511,342
EQUITY			
Equity attributable to owners of the parent			
Share capital		**666,667**	666,667
Reserves		**3,093,663**	2,764,392
		3,760,330	3,431,059
Non-controlling interests		**73,375**	80,283
Total equity		**3,833,705**	3,511,342

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*

Except for the amendments to IFRS 4 and Annual Improvements to IFRSs 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity of at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Notes	IAS 39 measurement Category	IAS 39 measurement Amount *RMB'000*	Re-classification *RMB'000*	Re-measurement *RMB'000*	ECL *RMB'000*	IFRS 9 measurement Amount *RMB'000*	IFRS 9 measurement Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	10,845	(1,266)	–	9,579	FVOCI[1] (equity)
From: Available-for-sale investments	*(i)*		–	10,845	–	–		
Available-for-sale investments		AFS[2]	220,845	(220,845)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	*(i)*		–	(10,845)	–	–		
To: Financial assets at fair value through profit or loss	*(ii)*		–	(210,000)	–	–		
Trade receivables		L&R	1,984,128	–	–	1,677	1,985,805	AC[4]
Bill receivables		L&R	2,678	–	–	–	2,678	FVOCI[1]
Financial assets included in prepayments, deposits and other receivables		L&R	228,483	–	–	–	228,483	AC
Due from related parties		L&R	53,887	–	–	(1,677)	52,210	AC
Loan receivables		L&R	354,217	–	–	–	354,217	AC
Financial assets at fair value through profit or loss		AFS	–	210,000	–	–	210,000	FVPL[5]
From: Available-for-sale investments			–	210,000	–	–		
Pledged deposits		L&R	953,421	–	–	–	953,421	AC
Cash and cash equivalents		L&R	614,879	–	–	–	614,879	AC
Other assets								
Deferred tax assets			35,624	–	316	–	35,940	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted debt investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these debt investments did not pass the contractual cash flow characteristics test in IFRS 9.

Impact on reserves and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits *RMB'000*
Fair value reserve under IFRS 9 (available-for-sale investment revaluation reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	950
Balance as at 1 January 2018 under IFRS 9	950

(c) IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 3 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Increase/ (decrease) *RMB'000*
Assets	
Completed properties held for sale	584
Total assets	584
Liabilities	
Other payables and accruals	(193,324)
Contract liabilities	195,479
Total liabilities	2,155
Equity	
Retained profits	(1,571)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Amounts prepared under		
	IFRS 15	**Previous IFRS**	**Increase/ (decrease)**
	RMB'000	*RMB'000*	*RMB'000*
CONTINUING OPERATIONS:			
Revenue	14,957,133	14,957,133	–
Profit for the year from continuing operations	306,209	306,209	–
DISCONTINUED OPERATION:			
Revenue	97,531	95,469	2,062
Cost of sales	(85,004)	(84,419)	(585)
Other income	413	413	–
Expenses	(4,808)	(4,808)	–
Finance costs	(1,104)	–	(1,104)
Profit from the discontinued operation	7,028	6,655	373
Gain on the disposal of the discontinued operation	8,864	9,237	(373)
Profit before tax from the discontinued operation	15,892	15,892	–
Income tax	–	–	–
Profit for the year from the discontinued operation	15,892	15,892	–
Profit for the year	322,101	322,101	–

Consolidated statement of financial position as at 31 December 2018:

	Amounts prepared under		
	IFRS 15	**Previous IFRS**	**Increase/ (decrease)**
	RMB'000	*RMB'000*	*RMB'000*
Other payables and accruals	211,185	341,922	(130,737)
Contract liabilities	130,737	–	130,737
Total liabilities	4,246,398	4,246,398	–
Net assets	3,833,705	3,833,705	–
Retained profits	2,291,864	2,291,864	–
Total equity	3,833,705	3,833,705	–

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

Development and sale of real estate

Prior to the adoption of IFRS 15, the Group presented sales proceeds received from customers in connection with the Group's pre-sales of properties as receipts in advance under advanced receipts, accruals and other payables in the consolidated statement of financial position. No interest was accrued on the long-term advances received under the previous accounting policy.

Upon the adoption of IFRS 15, the Group recognised contract liabilities for the interest on the sales proceeds received from customers with a significant financing component. The Group elected to apply the practical expedient and did not recognise the effects of a significant financing component with a customer if the time period is one year or less. In addition, reclassifications have been made from advances from customers included in other payables and accruals to contract liabilities for the outstanding balance of sales proceeds from customers.

(d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC-Int 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the sale of mobile telecommunications devices and accessories.

Management monitors the results of the Group's operating results of its business as a whole for the purpose of making decisions about resources allocation and performance assessment.

Segment assets and segment liabilities are both managed separately by operating segments.

Year ended 31 December 2018	**Mobile telecommunications devices** *RMB'000*	**Total** *RMB'000*
Segment assets	**8,080,103**	**8,080,103**
Segment liabilities	**4,246,398**	**4,246,398**

Year ended 31 December 2017	**Mobile telecommunications devices** *RMB'000*	**Total** *RMB'000*
Segment assets	8,047,952	8,047,952
Reconciliation:		
Assets related to a discontinued operation		305,691
Total assets		8,353,643
Segment liabilities	4,653,682	4,653,682
Reconciliation:		
Liabilities related to a discontinued operation		188,619
Total liabilities		4,842,301

Information about major customers

During the year, the Group had no customers from whom the revenue derived individually accounted for more than 10% of the Group's total revenue.

Geographical information

The Group mainly operates in Mainland China, Spain, Bangladesh and India, geographical segment information as required by IFRS 8 Operating Segments is presented as follows:

(a) Revenue from external customers

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Mainland China	**14,905,625**	15,754,368
Spain	**50,724**	–
Bangladesh	**452**	–
India	**332**	–
	14,957,133	15,754,368

(b) Non-current assets

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Mainland China	**314,563**	276,885
Spain	**4,487**	–
Bangladesh	**434**	–
India	**2,825**	–
	322,309	276,885

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sales of mobile telecommunications devices and accessories	**14,451,208**	15,257,138
Including:		
Retail of mobile telecommunications devices and accessories	**7,875,083**	8,466,621
Sales of telecommunications devices and accessories to franchisees	**3,039,672**	3,116,198
Wholesale of mobile telecommunications devices and accessories	**3,536,453**	3,674,319
Service income from mobile carriers	**378,337**	369,175
Other service fee income	**127,588**	128,055
	14,957,133	15,754,368

Disaggregated revenue information

For the year ended 31 December 2018

Segments

	Mobile telecommunications devices
	RMB'000
Geographical markets	
Mainland China	**14,905,625**
Spain	**50,724**
Bangladesh	**452**
India	**332**
Total revenue from contracts with customers	**14,957,133**

	Mobile telecommunications devices
	RMB'000
Timing of revenue recognition	
Goods transferred at a point in time	**14,451,208**
Services transferred over time	**505,925**
Total revenue from contracts with customers	**14,957,133**

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other income		
Interest income	**42,254**	12,570
Government grants *(note (a))*	**49,772**	39,910
Others	**5,720**	3,747
	97,746	56,227
Gains		
Gain on acquisition of subsidiaries	**189**	–
Gain on disposal of items of property, plant and equipment	**61**	200
	250	200
	97,996	56,427

Note (a): The amount represents grants received from PRC local government authorities by the Group's subsidiaries in connection with certain financial subsidies and tax refunds to support local businesses. There are no unfulfilled conditions and other contingencies attached to these government grants.

4. INCOME TAX EXPENSE

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which became effective on 1 January 2008, except for Jiangsu Shengduo Technology Trading Co., Ltd., and Sichuan Yijialong Communication Technology Chain Co., Ltd., two subsidiaries of the Company which were taxed at preferential rates of 12.5% and 15%, respectively, for the year ended 31 December 2018. The major components of income tax expense are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current:		
Tax charge for the year	**85,929**	75,580
Deferred	**(7,296)**	2,360
Total tax charge for the year from continuing operations	**78,633**	77,940
Total tax charge for the year from discontinued operations	**–**	–
	78,633	77,940

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of the subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before tax from continuing operations	**384,842**	400,429
Profit before tax from discontinued operations	**15,892**	458
	400,734	400,887
Tax at the statutory tax rate	**100,184**	100,222
Lower tax rates for certain entities	**(28,363)**	(23,174)
Tax rate change effect	**(1,049)**	–
Adjustments in respect of current tax of previous periods	**1,611**	2,733
Losses/(profits) attributable to associates and joint ventures	**840**	(412)
Expenses not deductible for tax	**6,978**	1,706
Tax losses utilised from previous periods	**(3,211)**	(6,346)
Tax losses not recognised	**1,643**	3,211
Tax charge at the Group's effective rate	**78,633**	77,940

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Tax charge from continuing operations at the effective rate	**78,633**	77,940
Tax charge from discontinued operations at the effective rate	**–**	–

The share of tax attributable to associates and joint ventures amounted to RMB365,000 (2017: RMB1,800,000) and RMB10,000 (2017: nil), respectively, is included in "Share of profits/(losses) of associates and joint ventures" in the consolidated statement of profit or loss and other comprehensive income.

5. DISCONTINUED OPERATION

On 31 December 2018, the Company entered into an equity transfer agreement to dispose its 70% equity interests in Shenzhen Digitone Investment Holdings Co., Limited ("Shenzhen Digitone"). Shenzhen Digitone and its subsidiaries are mainly engaged in the development and sale of properties. The Group decided to cease its properties business operations to focus its resources on its core business. The disposal was completed on 31 December 2018. With Shenzhen Digitone being classified as a discontinued operation, the properties segment is no longer included in the note for operating segment information.

The results of Shenzhen Digitone for the years are presented below:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**97,531**	219,948
Cost of sales	**(85,004)**	(212,158)
Other income	**413**	129
Expenses	**(4,808)**	(7,461)
Finance costs	**(1,104)**	–
Profit from the discontinued operation	**7,028**	458
Gain on the disposal of the discontinued operation	**8,864**	–
Profit before tax from the discontinued operation	**15,892**	458
Income tax	**–**	–
Profit for the year from the discontinued operation	**15,892**	458

	Year ended 31 December	
	2018	2017
Earnings per share:		
Basic and diluted *(RMB)*	**0.01**	0.00

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent from the discontinued operation	**12,554**	240
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**666,667,000**	666,667,000

6. DIVIDENDS

The directors did not propose a dividend for the year ended 31 December 2018.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 666,667,000 (2017: 666,667,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

The calculation of basic earnings per share is based on:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation		
From continuing operations	**316,982**	322,250
From a discontinued operation	**12,554**	240
	329,536	322,490
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**666,667,000**	666,667,000

8. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**2,278,015**	2,087,992
Bills receivable	**2,389**	2,678
Less: impairment	**(108,067)**	(103,864)
	2,172,337	1,986,806

The Group grants different credit periods to customers. The Group's retail sales to consumers are cash sales. Credit periods are offered to customers of volume sales of telecommunications devices and accessories. The credit periods offered to unincorporated customers are considered on a case-by-case basis. The Group maintains strict control over and closely monitors its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and receivables are non-interest bearing. At 31 December 2018, the Group's trade receivables with a carrying amount of approximately RMB38,573,000 (2017: nil) will pledged to secure other loans.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**2,016,782**	1,846,331
91 to 180 days	**66,324**	43,495
181 to 365 days	**50,185**	72,558
Over 1 year	**39,046**	24,422
	2,172,337	1,986,806

9. TRADE AND BILLS PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**327,359**	381,413
Bills payable	**157,517**	50,522
	484,876	431,935

An ageing analysis of the outstanding trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**308,797**	376,068
91 to 180 days	**160,858**	38,312
181 to 365 days	**11,467**	13,089
Over 1 year	**3,754**	4,466
	484,876	431,935

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 45 days.

10. DISPOSAL OF SUBSIDIARIES

	2018
	RMB'000
Net assets disposed of:	
Property, plant and equipment	**6,757**
Goodwill	**174**
Other intangible assets	**4**
Inventories	**10,950**
Properties under development	**12,528**
Completed properties held for sale	**104,926**
Cash and bank balances	**33,160**
Trade and bills receivables	**12,522**
Prepayments, other receivables and other assets	**37,262**
Trade and bills payables	**(32,478)**
Accruals and other payables	**(32,016)**
Tax payable	**(447)**
Due to related parties	**(45,773)**
Contract liabilities	**(33,826)**
Non-controlling interests	**(45,707)**
	28,036
Gain on disposal of subsidiaries	**7,464**
	35,500
Satisfied by:	
Cash	**–**
Cash consideration unreceived	**35,500**
	35,500

MANAGEMENT DISCUSSION & ANALYSIS

I. BUSINESS REVIEW

For the year ended 31 December 2018, the Group sold 9,881,780 mobile handsets, representing a decrease of 588,420 sets or 5.62% from 10,470,200 sets for the same period last year. Operating revenue for the year of 2018 amounted to RMB15,054,663,940, representing a decrease of RMB919,652,460 or 5.76% from RMB15,974,316,400 for the same period last year. Net profit for the year of 2018 amounted to RMB322,101,470, representing a decrease of RMB845,600 or 0.26% from RMB322,947,070 for the same period last year, among which net profit from continuing operations amounted to RMB306,209,040, while net profit from discontinued operations amounted to RMB15,892,430.

II. FINANCIAL POSITION AND OPERATING RESULTS

(I) Overview

For the year ended 31 December 2018, the Group recognized net profit of RMB322,101,470, representing a decrease of RMB845,600 or 0.26% from RMB322,947,070 for the same period in 2017. Of which, net profit attributable to the owners of the parent of the Company amounted to RMB329,536,730, representing an increase of RMB7,046,640 or 2.19% from RMB322,490,090 for the same period in 2017.

(II) Consolidated comprehensive income statement

The following table sets forth the selected items in our consolidated comprehensive income statement for the periods indicated. Our operating results have fluctuated in the past and may continue to fluctuate in future. Hence direct comparison of our operating results for different periods may not be appropriate, and our past performance may not be a reliable indicator of our future operating results.

	For the year ended 31 December			
Items	2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of change**
Operating revenue	15,754,368.23	**14,957,132.81**	(797,235.42)	(5.06%)
Cost of sales	(13,761,990.26)	**(13,042,383.32)**	719,606.94	(5.23%)
Gross profit	1,992,377.97	**1,914,749.49**	(77,628.48)	(3.90%)
Other income and gains	56,426.52	**97,996.37**	41,569.85	73.67%
Selling and distribution expenses	(1,065,825.15)	**(992,507.70)**	73,317.45	(6.88%)
Administrative expenses	(349,157.99)	**(359,889.67)**	(10,731.68)	3.07%
Other expenses	(52,300.15)	**(80,041.85)**	(27,741.70)	53.04%
Finance costs	(182,740.98)	**(192,105.06)**	(9,364.08)	5.12%
Investment gains	1,648.47	**(3,359.57)**	(5,008.04)	(303.80%)
Profit before tax	400,428.69	**384,842.01**	(15,586.68)	(3.89%)
Income tax expense	(77,939.84)	**(78,632.97)**	(693.13)	0.89%
Net profit from continuing operations	322,488.85	**306,209.04**	(16,279.81)	(5.05%)
Net profit from discontinued operations	458.22	**15,892.43**	15,434.21	3368.30%
Attributable to owners of the parent	322,490.09	**329,536.73**	7,046.64	2.19%
Attributable to minority interests	456.98	**(7,435.26)**	(7,892.24)	(1727.04%)

1. *Operating revenue*

Operating revenue of the Group for the year ended 31 December 2018 amounted to RMB15,054,663,940, representing a decrease of RMB919,652,460 or 5.76% from RMB15,974,316,400 for the same period in 2017. Decrease in revenue was mainly attributable to the decrease in three aspects as follows:

(1) overall slower mobile handsets market growth in China leading to a downward trend in the industry;

(2) decrease in wholesale sales of high-priced handsets such as Samsung and Apple;

(3) decrease in revenue from the sales of properties.

Our sales of mobile telecommunications devices and accessories include (i) sales in our retail business including our independently operated outlets and online channels; (ii) sales in our franchise business; and (iii) sales in our wholesale business. Revenue from our retail business includes revenue from sales of mobile telecommunications devices and accessories in our independent stores and store-in-store outlets, stores in cooperation with the mobile carriers, and online sales platforms. Revenue from our franchise business includes revenue from sales of mobile telecommunications devices and accessories to our franchisees. Revenue from our wholesale business includes revenue from sales of mobile telecommunications devices and accessories we distribute to mobile carriers and other third-party retailers. Our service income from mobile carriers primarily represents various subsidies from the mobile carriers such as rental and commissions. Other service fee income includes (i) management and service fees received from suppliers of products; (ii) income from value-added services; (iii) the rental fees we earn by renting counter space to third parties who provide repair services; (iv) repair and maintenance fees; and (v) income from franchisees' services. Our revenue from the sales of properties primarily represents revenue from sales of residential units and business premises.

The following table sets forth information relating to our operating revenue for the periods indicated:

	For the year ended 31 December					
	2017		**2018**		**Change**	**Percentage of change**
	RMB'000	*% of total revenue*	***RMB'000***	***% of total revenue***	*RMB'000*	
Items						
Revenue from continuing operation						
(1) **Sales of mobile telecommunications devices and accessories**	15,257,138.41	95.51%	**14,451,207.61**	**95.99%**	(805,930.80)	(5.28%)
Including: Sales from retail of mobile telecommunications devices and accessories	8,466,621.41	53.00%	**7,875,082.41**	**52.31%**	(591,539.00)	(6.99%)
Sales of telecommunications devices and accessories to franchisees	3,116,197.87	19.51%	**3,039,671.90**	**20.19%**	(76,525.97)	(2.46%)
Wholesale of mobile telecommunications devices and accessories	3,674,319.13	23.00%	**3,536,453.30**	**23.49%**	(137,865.83)	(3.75%)
(2) **Service income from mobile carriers**	369,174.67	2.31%	**378,336.93**	**2.51%**	9,162.26	2.48%
(3) **Other service fee income**	128,055.15	0.80%	**127,588.27**	**0.85%**	(466.88)	(0.36%)
Revenue from discontinued operation						
Revenue from sales of properties	219,948.17	1.38%	**97,531.13**	**0.65%**	(122,417.04)	(55.66%)
Total	15,974,316.40	100.00%	**15,054,663.94**	**100.00%**	(919,652.46)	(5.76%)

The Group's service income from mobile carriers amounted to RMB378,336,930 for the year ended 31 December 2018, representing an increase of RMB9,162,260 or 2.48% from RMB369,174,670 for the same period in 2017. Increase in the service income from mobile carriers was mainly attributable to an increase in income from the share of call charge as a result of the development of cooperation with China Telecom in 2018.

The following table sets forth our service income from each of the major mobile carriers for 2018 and 2017:

	For the year ended 31 December					
Items	2017		**2018**		**Change**	**Percentage of change**
	RMB'000	*% of total revenue*	***RMB'000***	***% of total revenue***	*RMB'000*	
China Mobile	163,162.17	44.20%	**143,811.03**	**38.01%**	(19,351.14)	(11.86%)
China Unicom	39,624.13	10.73%	**27,452.65**	**7.25%**	(12,171.48)	(30.72%)
China Telecom	166,302.63	45.05%	**207,052.44**	**54.73%**	40,749.81	24.50%
Dixintong Telecommunications Services	85.74	0.02%	**20.81**	**0.01%**	(64.93)	(75.73%)
Total	369,174.67	100.00%	**378,336.93**	**100.00%**	9,162.26	2.48%

"Dixintong Telecommunications Services" refers to Beijing Dphone Communication Services Co., Ltd. (北京迪信通通信服務有限公司), our related party. For details of related party transactions, please refer to the section headed "Related party transactions".

2. *Cost of sales*

The Group's cost of sales for the year ended 31 December 2018 amounted to RMB13,127,387,570, representing a decrease of RMB846,760,920 or 6.06% from RMB13,974,148,490 for the same period in 2017, which was mainly due to the decrease in cost of sales in tandem with the decrease in our operating revenue.

The following table sets forth information relating to our cost of sales for the periods indicated:

	For the year ended 31 December					
Items	2017		**2018**		**Change**	**Percentage of change**
	RMB'000	*% of total costs*	***RMB'000***	***% of total costs***	*RMB'000*	
Cost of continuing operations						
Sales of mobile telecommunications devices and accessories	13,716,811.98	98.16%	**13,013,650.04**	**99.13%**	(703,161.94)	(5.13%)
Including: Sales from retail of mobile telecommunications devices and accessories	7,122,226.58	50.97%	**6,616,139.96**	**50.40%**	(506,086.62)	(7.11%)
Sales of telecommunications devices and accessories to franchisees	3,025,591.40	21.65%	**2,957,110.92**	**22.53%**	(68,480.48)	(2.26%)
Wholesale of mobile telecommunications devices and accessories	3,568,994.00	25.54%	**3,440,399.16**	**26.20%**	(128,594.84)	(3.60%)
Service income from mobile carriers	42,253.00	0.30%	**25,703.13**	**0.20%**	(16,549.87)	(39.17%)
Other service fee income	2,925.28	0.02%	**3,030.15**	**0.02%**	104.87	3.58%
Cost of sales of properties						
Cost of discontinued operations	212,158.23	1.52%	**85,004.25**	**0.65%**	(127,153.98)	(59.93%)
Total	13,974,148.49	100.00%	**13,127,387.57**	**100.00%**	(846,760.92)	(6.06%)

3. *Gross profit and gross profit margin*

Gross profit represents operating revenue net of cost of sales. The Group's gross profit for the year ended 31 December 2018 amounted to RMB1,927,276,370, representing a decrease of RMB72,891,540 or 3.64% from RMB2,000,167,910 for the same period in 2017. Our overall gross profit margins for the year ended 31 December 2017 and 2018 were 12.52% and 12.80%, respectively. Increase in our overall gross profit margin 2017 was primarily due to the increase in the gross profits from sales of mobile telecommunications devices and accessories resulting from the increase in the proportion of sales of domestic brand handsets with higher gross profits.

	For the year ended 31 December							
	2017			**2018**				
	RMB'000	% of total gross profit	Gross profit margin	***RMB'000***	**% of total gross profit**	**Gross profit margin**	**Change** *RMB'000*	**Percentage of change**
Items								
Revenue from continuing operations								
(1) Sales of mobile telecommunications devices and accessories	1,540,326.43	77.01%	10.10%	**1,437,557.57**	**74.59%**	**9.95%**	(102,768.86)	(6.67%)
Including: Sales from retail of mobile telecommunications devices and accessories	1,344,394.83	67.21%	15.88%	**1,258,942.45**	**65.32%**	**15.99%**	(85,452.38)	(6.36%)
Sales of telecommunications devices and accessories to franchisees	90,606.47	4.53%	2.91%	**82,560.98**	**4.28%**	**2.72%**	(8,045.49)	(8.88%)
Wholesale of mobile telecommunications devices and accessories	105,325.13	5.27%	2.87%	**96,054.14**	**4.99%**	**2.72%**	(9,270.99)	(8.80%)
(2) Service income from mobile carriers	326,921.67	16.34%	88.55%	**352,633.80**	**18.30%**	**93.21%**	25,712.13	7.86%
(3) Other service fee income	125,129.87	6.26%	97.72%	**124,558.12**	**6.46%**	**97.63%**	(571.75)	(0.46%)
Revenue from discontinued operations								
Revenue of sales of properties	7,789.94	0.39%	3.54%	**12,526.88**	**0.65%**	**12.84%**	4,736.94	60.81%
Total	2,000,167.91	100.00%	12.52%	**1,927,276.37**	**100.00%**	**12.80%**	(72,891.54)	(3.64%)

4. *Sales volume and average selling price of handsets*

The following table sets forth information about our sales, sales volume and average selling price of mobile handsets for the periods indicated:

	For the year ended 31 December			
Items	2017	**2018**	**Change**	**Percentage of change**
Sales of mobile handsets (in RMB thousands)	14,568,434.62	**13,770,946.29**	(797,488.33)	(5.47%)
Sales volume (in handsets)	10,470,204.00	**9,881,776.00**	(588,428.00)	(5.62%)
Average selling price (RMB/per handset)	1,391.42	**1,393.57**	2.15	0.15%

5. *Other income and gains*

Other income and gains include: (i) interest income; (ii) government grants; (iii) gain on disposal of property, plant and equipment; (iv) gain on foreign exchange; (v) investment gain on disposal of subsidiaries; and (vi) others. The Group's other income and gains for the year ended 31 December 2018 amounted to RMB97,996,370, representing an increase of RMB41,569,850 or 73.67% from RMB56,426,520 for the same period in 2017, which was primarily attributable to the increase in interest income as a result of an increase in tax refund caused by the preferential tax policy in 2018 and an increase in cash flow from operating activities.

The following table sets forth information relating to other income and gains for the periods indicated:

	For the year ended 31 December			
Items	2017	**2018**	**Change**	**Percentage of change**
	RMB'000	***RMB'000***	*RMB'000*	
Interest income	12,569.85	**42,253.51**	29,683.66	236.15%
Government grants	39,909.62	**49,771.72**	9,862.10	24.71%
Gain on disposal of property, plant and equipment	199.96	**60.66**	(139.30)	(69.66%)
Gain on foreign exchange	–	**619.84**	619.84	–
Others	3,747.09	**5,290.64**	1,543.55	41.19%
Total	56,426.52	**97,996.37**	41,569.85	73.67%

6. *Selling and distribution expenses*

Items	Selling and distribution expenses		% of total expenses		Change	Percentage of change
	For the year ended 31 December					
	2017	**2018**	2017	**2018**		
	RMB'000	***RMB'000***			*RMB'000*	
Staff salaries	468,386.03	**437,250.82**	43.95%	**44.06%**	(31,135.21)	(6.65%)
Office expenses	17,653.63	**15,831.98**	1.66%	**1.59%**	(1,821.65)	(10.32%)
Travelling expenses	3,764.11	**3,680.34**	0.35%	**0.37%**	(83.77)	(2.23%)
Transportation expenses	15,314.04	**15,201.57**	1.44%	**1.53%**	(112.47)	(0.73%)
Business entertainment expenses	3,263.34	**3,054.45**	0.31%	**0.31%**	(208.89)	(6.40%)
Communication expenses	4,660.00	**4,250.26**	0.44%	**0.43%**	(409.74)	(8.79%)
Rentals and property management expenses	350,601.07	**328,424.50**	32.89%	**33.09%**	(22,176.57)	(6.33%)
Repair expenses	5,645.49	**5,553.69**	0.53%	**0.56%**	(91.80)	(1.63%)
Advertising and promotion expenses	66,347.34	**59,169.46**	6.22%	**5.96%**	(7,177.88)	(10.82%)
Depreciation expenses	7,889.30	**7,531.49**	0.74%	**0.76%**	(357.81)	(4.54%)
Amortisation of long-term deferred expenses	44,012.54	**39,920.28**	4.13%	**4.02%**	(4,092.26)	(9.30%)
Amortisation of low-cost consumables	6,223.16	**5,679.95**	0.58%	**0.57%**	(543.21)	(8.73%)
Market management fees	14,897.06	**14,461.63**	1.40%	**1.46%**	(435.43)	(2.92%)
Utilities	37,843.55	**34,704.52**	3.55%	**3.50%**	(3,139.03)	(8.29%)
Others	19,324.49	**17,792.76**	1.81%	**1.79%**	(1,531.73)	(7.93%)
Total	1,065,825.15	**992,507.70**	100.00%	**100.00%**	(73,317.45)	(6.88%)

Total selling and distribution expenses of the Group for the year ended 31 December 2018 amounted to RMB992,507,700, representing a decrease of RMB73,317,450 or 6.88% from RMB1,065,825,150 for the same period in 2017, which was mainly due to the decrease in staff salaries, rentals and property management expenses, advertising and promotion expenses and amortisation of leasehold improvement.

Total staff salaries for the year ended 31 December 2018 amounted to RMB437,250,820, representing a decrease of RMB31,135,210 or 6.65% from RMB468,386,030 for the same period in 2017. Such decrease was mainly due to the decrease in the number of staff during the year resulting from streamlining of the staffing structure.

Total rentals and property management expenses for the year ended 31 December 2018 amounted to RMB328,424,500, representing a decrease of RMB22,176,570 or 6.33% from RMB350,601,070 for the same period in 2017. Such decrease was mainly due to the closing of inefficient stores and the reinforcement of cooperation between the Company and the operators through joint establishment and joint operation, which resulted in the higher amount of rental subsidies received from the operators as compared with last year.

Total advertising and promotion expenses for the year ended 31 December 2018 amounted to RMB59,169,460, representing a decrease of RMB7,177,880 or 10,82% from RMB66,347,340 for the same period in 2017. Such decrease was mainly attributable to the decrease in inputs to soft and hard advertisements in 2018.

Total amortisation of leasehold improvement for the year ended 31 December 2018 amounted to RMB39,920,280, representing a decrease of RMB4,092,260 or 9.30% from RMB44,012,540 for the same period in 2017. Such decrease was mainly attributable to the decrease in the number of stores as compared with the same period, and the decrease in stores improvement expenses in 2018.

7. *Administrative expenses*

Items	For the year ended 31 December Administrative expenses		% of total expenses		Change	Percentage of change
	2017	**2018**	2017	**2018**		
	RMB'000	***RMB'000***			*RMB'000*	
Staff salaries	142,060.50	**141,484.45**	40.69%	**39.31%**	(576.05)	(0.41%)
Tax expenses	1,049.33	**501.92**	0.30%	**0.14%**	(547.41)	(52.17%)
Office expenses	25,358.57	**22,552.94**	7.26%	**6.27%**	(2,805.63)	(11.06%)
Depreciation expenses	12,167.67	**9,227.31**	3.48%	**2.56%**	(2,940.36)	(24.17%)
Amortisation of intangible assets	521.32	**1,076.04**	0.15%	**0.30%**	554.72	106.41%
Amortisation of long-term deferred expenses	1,460.54	**1,431.65**	0.42%	**0.40%**	(28.89)	(1.98%)
Amortisation of low-cost consumables	4,946.90	**4,844.92**	1.42%	**1.35%**	(101.98)	(2.06%)
Travelling expenses	14,142.62	**12,561.30**	4.05%	**3.49%**	(1,581.32)	(11.18%)
Rental and property management fees	14,294.29	**14,059.06**	4.09%	**3.91%**	(235.23)	(1.65%)
Business entertainment expenses	11,357.68	**10,703.19**	3.25%	**2.97%**	(654.49)	(5.76%)
Communication expenses	3,895.27	**3,821.42**	1.12%	**1.06%**	(73.85)	(1.90%)
Agency fees	12,109.18	**10,397.43**	3.47%	**2.89%**	(1,711.75)	(14.14%)
Transportation expenses	15,731.76	**13,881.54**	4.51%	**3.86%**	(1,850.22)	(11.76%)
Financial institution charges	78,026.76	**94,576.36**	22.35%	**26.28%**	16,549.60	21.21%
Others	12,035.60	**18,770.14**	3.44%	**5.21%**	6,734.54	55.96%
Total	349,157.99	**359,889.67**	100.00%	**100.00%**	10,731.68	3.07%

The Group's total administrative expenses for the year ended 31 December 2018 amounted to RMB359,889,670, representing an increase of RMB10,731,680 or 3.07% from RMB349,157,990 for the same period in 2017. Such increase in administrative expenses was primarily attributable to the increase in financial institution charges and system service fee included in others.

Total financial institution charges for the year ended 31 December 2018 amounted to RMB94,576,360, representing an increase of RMB16,549,600 or 21.21% from RMB78,026,760 for the same period in 2017. Such increase was primarily attributable to the increase in institution charges resulting from the increase in revenue from online malls.

Total other expenses for the year ended 31 December 2018 amounted to RMB18,770,140, representing an increase of RMB6,734,540 or 55,96% from RMB12,035,600 for the same period in 2017. Such increase was primarily attributable to the increase in charges for system service fee, the commencement in using the financial sharing system by the Group and the development of D.Phone operating system software for the elderly.

8. *Other expenses*

Our other expenses include impairment losses on assets, exchange loss and non-operating expenses. For the years ended 31 December 2017 and 2018, our other expenses amounted to RMB52,300,150 and RMB80,041,850, respectively.

	For the year ended 31 December			
Items	2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of change**
Impairment losses on assets	39,881.26	**72,216.82**	32,335.56	81.08%
Financial expense – exchange loss	4,547.39	**–**	(4,547.39)	(100.00%)
Non-operating expenses	7,871.50	**6,424.63**	(1,446.87)	(18.38%)
Loss from disposal of subsidiaries	–	**1,400.40**	1,400.40	–
Total	52,300.15	**80,041.85**	27,741.70	53.04%

The Group's total other expenses for the year ended 31 December 2018 amounted to RMB80,041,850, representing an increase of RMB27,741,700 or 53.04% from RMB52,300,150 for the same period in 2017. The increase was mainly attributable to the increase in impairment losses on assets of the Group for the year resulting from the increase in bad debts of current accounts and the increase in impairment loss of goodwill and bad debts current accounts from improper operations of subsidiaries.

9. *Finance costs*

	For the year ended 31 December			
Item	2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of charge**
Finance costs – interest expenses	182,740.98	**192,105.06**	9,364.08	5.12%

The Group's total finance costs for the year ended 31 December 2018 amounted to RMB192,105,060, representing an increase of RMB9,364,080, or 5.12%, from RMB182,740,980 for the same period in 2017. Such increase in finance costs was primarily attributable to the significant increase in interest expenses as compared with the same period of last year, resulting from the corporate bond with an initial par value of RMB600,000,000 issued by the Group on 5 April 2017. In addition, the increase in the discounted finance costs from borrowings and bills during the year resulted in an increase in interest expenses.

10. Income tax expenses

Our income tax expenses for the stated periods included PRC Corporate Income Tax ("**CIT**") and deferred income tax. In accordance with the Corporate Income Tax Implementation Regulations, our PRC subsidiaries have been required to pay tax at an income tax rate of 25% as from January 2008. For the year ended 31 December 2018, the income tax rate of 25% was applicable to all of the Group's PRC subsidiaries except Sichuan Yijialong Communication Technology Chain Co., Ltd. (四川億佳隆通訊連鎖有限公司), Jiangsu Shengduo Technology Trading Co., Ltd. (江蘇勝多科貿有限責任公司). Sichuan Yijialong Communication Technology Chain Co., Ltd. has been entitled to an income tax rate of 15% since 2012 as a company which is principally engaged in an industry encouraged by the State. Jiangsu Shengduo Technology Trading Co., Ltd. has been entitled to the "two-year exemption and three-year reduction" policy i.e. full exemption of CIT for the first two years and 50% reduction of CIT for the following three years from April 2014 as a software company encouraged by the State Taxation Administration. For the years ended 31 December 2017 and 2018, our effective tax rates were 19.44% and 19.62%, respectively. During the year ended 31 December 2018, we have settled the payment of all relevant taxes, and we have not been engaged in any disputes or unresolved tax matters with the taxation authorities.

The following table sets forth information relating to our income tax expenses for the periods indicated:

	For the year ended 31 December			
Items	2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of change**
Income tax in the PRC for the year	75,579.53	**85,929.37**	10,349.84	13.69%
Deferred tax	2,360.30	**(7,296.40)**	(9,656.70)	(409.13%)
Total	77,939.84	**78,632.97**	693.13	0.89%

The Group's total income tax expense for the year ended 31 December 2018 amounted to RMB78,632,970, representing an increase of RMB693,130 or 0.89% compared with the total income tax expense of RMB77,939,840 for the same period in 2017. Such decrease was primarily attributable to the increase in non-deductible expenses due to impairment of goodwill for the period.

(III) Liquidity and financial resources (current assets, financial resources)

We operate in a capital-intensive industry and we fund our working capital, capital expenditure and other funding requirements mainly through income generated from operating activities and bank borrowings.

Items	For the year ended 31 December 2017 RMB'000	**2018** ***RMB'000***
Net cash generated from operating activities	69,584.98	**266,248.55**
Net cash used in/generated from investing activities	(638,590.70)	**350,889.83**
Net cash generated from/used in financing activities	400,277.66	**(524,233.71)**
Net increase in cash and cash equivalents	(168,728.06)	**92,904.67**
Cash and cash equivalents at beginning of the year	784,755.66	**614,879.49**
Effect of changes of foreign exchange rate on cash flow	(1,148.11)	**763.94**
Cash and cash equivalents at end of the year	614,879.49	**708,548.10**

1. Net cash generated from operating activities

Our cash generated from operating activities is primarily from sales of mobile telecommunication devices and accessories. Our cash used in operating activities is primarily for purchase of telecommunication devices and accessories from suppliers, rental expenses and staff salary and compensation. Our net cash flow used in operating activities reflects our profit before income tax, as adjusted for non-cash items, such as finance costs and depreciation of property, plant and equipment, and the effects of changes in working capital, such as increases or decreases in inventories, receivables, prepayments, trade and other payables and accruals. We had net operating cash inflow of RMB266,248,550 for the year ended 31 December 2018.

For the year ended 31 December 2018, we had net cash inflow from operating activities of RMB266,248,550, primarily due to (i) profit before tax from continuing operations of RMB384,842,010 in line with the Group's remarkable operating profits; (ii) an increase of receivables from operating activities owing to more favorable credit terms offered to the wholesale customers which offset the effect of cash inflow from the net profits; and (iii) increase in proportion of payments settled with bills payables during the year, longer credit periods of bills payables as well as increase in operating trade and bills payables.

2. *Net cash used in investing activities*

Our cash flow generated from investing activities reflects the results of our investing activities for the period, such as purchase of property, plant, equipment, proceeds from disposal of property, plant and equipment, acquisition of associated companies and joint ventures, purchase of bank financial products and loans to the third parties.

For the year ended 31 December 2018, we had net cash inflow from investing activities of RMB350,889,830, which was primarily attributable to (i) the purchase and construction of fixed assets and decoration costs of RMB68,711,000 in connection with the opening of new outlets and the renovation of old ones; (ii) the investment of RMB11,500,000 in the joint ventures and associated companies; (iii) expenses on the redemption of bank financial products of RMB210,000,000; and (iv) the net effect of the expenses of recovery of entrusted loans and loans to the third parties of RMB281,423,000.

3. *Net cash generated from financing activities*

Our net cash generated from financing activities reflects the results of our financing activities for the period, such as bank loans, proceeds from the issuance of a corporate bond, repayment of bank loans, payment of interests and other financing activities.

For the year ended 31 December 2018, we had net cash outflow from financing activities of RMB524,233,710, primarily due to (i) bank loans of RMB7,116,070,000 and repayment of bank loans of RMB7,794,629,000; (ii) interest payment to banks of RMB191,739,000; (iii) cash inflow generated from minority shareholders' investment of RMB49,650,830; and (iv) the decrease in security deposits pledged of RMB296,412,510 as compared to that of last year .

(IV) Balance Sheet Items

1. *Trade and bills receivables*

Our trade and bills receivables primarily consist of (i) trade receivables; and (ii) bills receivables. The following table sets forth information relating to our trade and bills receivables as of the dates indicated:

	As of 31 December			
	2017	**2018**	**Fluctuation**	**Percentage of Fluctuation**
	RMB'000	***RMB'000***	*RMB'000*	
Trade receivables	2,087,991.71	**2,278,014.82**	190,023.11	9.10%
Bills receivables	2,678.37	**2,389.45**	(288.92)	(10.79%)
	2,090,670.08	**2,280,404.27**	189,734.19	9.08%
Less: Impairment for trade receivables	(103,864.49)	**(108,067.31)**	(4,202.82)	4.05%
	1,986,805.59	**2,172,336.96**	185,531.37	9.34%

The following table sets forth information relating to trade receivables before deducting impairment as of the dates indicated:

	As of 31 December			
	2017	**2018**	**Fluctuation**	**Percentage of Fluctuation**
	RMB'000	***RMB'000***	*RMB'000*	
Franchisees	847,160.49	**974,634.03**	127,473.54	15.05%
Supermarket customers	145,307.30	**120,333.05**	(24,974.25)	(17.19%)
Mobile carriers	471,993.69	**479,869.27**	7,875.58	1.67%
Third party wholesale customers	612,605.23	**703,178.47**	90,573.24	14.78%
Property buyers	10,925.00	**–**	(10,925.00)	(100.00%)
	2,087,991.71	**2,278,014.82**	190,023.11	9.10%

To enhance sales of our handsets and enlarge our market share, we granted credit periods of 30-120 days to certain customers in 2018. Credit periods are offered to customers with the largest volume sales of telecommunication devices and accessories. We closely monitor and maintain strict control over our outstanding receivables to minimise credit risk. Overdue balances are also reviewed regularly by the management. As our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. We do not hold any collateral or other credit enhancements over our trade receivable balances. Our trade and bills receivables are non-interest-bearing. Our trade receivables less impairment as of 31 December 2018 amounted to RMB2,169,947,510, representing an increase of RMB185,820,290 or 9.37%, from RMB1,984,127,220 as of 31 December 2017. Our trade receivables before deducting impairment as of 31 December 2018 amounted to RMB2,278,014,820, representing an increase of RMB190,023,110 or 9.10% from RMB2,087,991,710 as of 31 December 2017.

Trade receivables from franchisees as of 31 December 2018 amounted to RMB974,634,030, representing an increase of RMB127,473,540 or 15.05% from RMB847,160,490 as of 31 December 2017. Such increase was primarily attributable to extension of the credit periods for some of creditworthy franchisees.

Trade receivables from supermarket customers as of 31 December 2018 amounted to RMB120,333,050, representing a decrease of RMB24,974,250 or 17.19% from RMB145,307,300 as of 31 December 2017. Such decrease was primarily attributable to the decrease of revenue from supermarket customers.

Trade receivables from mobile carriers as of 31 December 2018 amounted to RMB479,869,270, representing an increase of RMB7,875,580 or 1.67% from RMB471,993,690 as of 31 December 2017. There was no substantial change in the outstanding amounts for both years.

Trade receivables from external wholesale customers as of 31 December 2018 amounted to RMB703,178,470, representing an increase of RMB90,573,240 or 14.78%, from RMB612,605,230 as of 31 December 2017. Such increase was primarily due to the fact that the Group granted credit periods to large-scale government agencies in order to explore the market.

Trade receivables from property buyers as of 31 December 2018 were nil. The balance as of 31 December 2017 amounted to RMB10,925,000, mainly owing to the disposal of property segment by the Group.

As of the date of this announcement, an amount of approximately RMB2,006,334,540 in our trade receivables as of 31 December 2018 were subsequently settled.

Our management regularly monitors our overdue balances of trade receivables and provides for impairment of these trade receivables. Our provisions for impairment of trade receivables as of 31 December 2018 amounted to RMB108,067,310, representing an increase of RMB4,202,820 or 4.05% from RMB103,864,490 as of 31 December 2017, primarily owing to the increased risk from bad debt resulting from the increase of outstanding trade receivables. Our Directors believe that our provisions for impairment on trade receivables are adequate.

The following table sets forth the aging analysis of our trade and bills receivables as of the dates indicated:

Items	**As of 31 December** 2017	**2018**
	RMB'000	***RMB'000***
Within 90 days	1,846,330.54	**2,016,782.03**
91 to 180 days	43,495.20	**66,323.74**
181 to 365 days	72,557.82	**50,185.41**
Over 1 year	24,422.03	**39,045.78**
Total	1,986,805.59	**2,172,336.96**

The following table sets forth our average trade receivables turnover days for the periods indicated:

Item	**For the year ended 31 December** 2017	**2018**	**Change in number of days**	**Percentage of change**
	Number of days	***Number of days***		
Average trade receivables turnover days	42	**50**	8	19.05%

For the year ended 31 December 2018, our average trade receivables turnover days were 50 days, which increased 8 days as compared with 2017. Such increase was primarily attributable to the increase of the balance of trade receivables and the increase of extension of credit age by some of creditworthy customers.

2. *Prepayments and other receivables*

Our prepayments and other receivables consist of (i) prepayments; and (ii) other receivables. The following table sets forth information relating to our prepayments and other receivables as of the dates indicated:

	As of 31 December			
Items	2017	**2018**	**Fluctuation**	**Percentage of Fluctuation**
	RMB'000	***RMB'000***	*RMB'000*	
Prepayments	1,129,281.92	**1,130,937.02**	1,655.10	0.15%
Other receivables	237,692.27	**227,816.60**	(9,875.67)	(4.15%)
Total	1,366,974.19	**1,358,753.62**	(8,220.57)	(0.60%)
Less: Impairment for other receivables	(9,209.53)	**(27,310.17)**	(18,100.64)	196.54%
	1,357,764.66	**1,331,443.45**	(26,321.21)	(1.94%)

Our prepayments represent our prepayments to suppliers of mobile telecommunication devices and accessories and prepaid rental payments to our lessors. Our prepayments as of 31 December 2018 amounted to RMB1,130,937,020, representing an increase of RMB1,655,100, or 0.15% from RMB1,129,281,920 as of 31 December 2017. Such increase was mainly attributable to the increased local procurement by the subsidiaries with shorter preferential credit period and increased procurement settled by prepayment when compared with centralized procurement.

3. *Impairment of trade and other receivables*

We uses a provision matrix to calculate ECLs for trade receivables and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on our historical observed default rates. We will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. our historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Based on the aforesaid policy for provision, the Directors are of the view that we have made sufficient provisions for the impairment for trade and other receivables.

4. *Inventories*

Our inventories consist primarily of (i) merchandise for sale; and (ii) consumables. The following table sets forth information relating to our inventories as of the dates indicated:

	As of 31 December			
Items	2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of change**
Merchandise for sale	2,318,661.06	**2,563,682.15**	245,021.09	10.57%
Consumables	–	**769.52**	769.52	–
Total	2,318,661.06	**2,564,451.67**	245,790.61	10.60%
Less: Provision against inventories	(21,062.44)	**(22,664.68)**	(1,602.24)	7.61%
Total	2,297,598.62	**2,541,786.99**	244,188.37	10.63%

Our inventories as of 31 December 2018 amounted to RMB2,541,786,990, representing an increase of RMB244,188,370 or 10.63% from RMB2,297,598,620 as of 31 December 2017. Such increase was mainly because the Group increased stock of best-selling models during the end of the year and the unit price of mobile handsets increased during the year.

The following table sets forth the aging analysis of our inventories as of the dates indicated:

	As of 31 December			
Period	2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of change**
Within 30 days	2,161,171.29	**2,380,274.69**	219,103.40	10.14%
31 to 60 days	80,313.21	**88,817.31**	8,504.10	10.59%
60 to 90 days	34,443.90	**31,841.00**	(2,602.90)	(7.56%)
Over 90 days	42,732.66	**63,518.67**	20,786.01	48.64%
Total	2,318,661.06	**2,564,451.67**	245,790.61	10.60%

The following table sets forth the average inventory turnover days for the periods indicated:

Item	For the year ended 31 December 2017 *Number of days*	**2018** ***Number of days***	**Change in Number of days**	**Percentage of change**
Average inventory turnover days	58	**67**	9	15.52%

Average inventory turnover days for the year ended 31 December 2018 were 67 days, which increased 9 days as compared with 2017. Such increase was mainly due to the fact that (i) the Group increased stock of the best-selling models in the market such as Huawei Mate20, Oppo R17 and Vivo X23 at the end of the period; (ii) the unit cost of the same brand of mobile handset increased as compared to 2017 with the improvement of mobile handset performance; (iii) the slowdown in the turnover of high-priced mobile handsets also lowered the overall inventory turnover rate; and (iv) as the overseas company business has shaped, the inventory turnover days increased due to longer time of international logistics.

5. *Properties under development and completed properties held for sale*

Items	For the year ended 31 December 2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of change**
Properties under development	82,121.40	–	(82,121.40)	(100%)
Completed properties held for sale	119,593.55	–	(119,593.55)	(100%)
Total	201,714.95	–	(201,714.95)	(100%)

The real estate company was transferred out of the scope of the Group's consolidation for the current period. Therefore, as of 31 December 2018, the properties under development and completed properties held for sale were both nil.

6. *Trade and bills payables*

Our trade and bills payables consist of (i) trade payables; and (ii) bills payables. The following table sets forth information relating to our trade and bills payables as of the dates indicated:

Items	As of 31 December 2017	2018	Change	Percentage of change
	RMB'000	***RMB'000***	*RMB'000*	
Trade payables	381,412.86	**327,359.15**	(54,053.71)	(14.17%)
Bills payables	50,521.66	**157,517.34**	106,995.68	211.78%
Total	431,934.52	**484,876.49**	52,941.97	12.26%

The following table sets forth the aging analysis of our trade and bills payables as of the dates indicated:

Period	As of 31 December 2017	2018	Change	Percentage of change
	RMB'000	***RMB'000***	*RMB'000*	
Within 90 days	376,066.77	**308,797.32**	(67,269.45)	(17.89%)
91 to 180 days	38,312.45	**160,858.24**	122,545.79	319.86%
181 to 365 days	13,089.16	**11,467.40**	(1,621.76)	(12.39%)
Over 1 year	4,466.14	**3,753.53**	(712.61)	(15.96%)
Total	431,934.52	**484,876.49**	52,941.97	12.26%

The following table sets forth our average trade and bills payables turnover days for the periods indicated:

Item	For the year ended 31 December 2017	2018	Change in number of days	Percentage of change
	Number of days	***Number of days***		
Average trade and bills payables turnover days	11	**13**	2	18.18%

Our trade payables are non-interest bearing and are normally settled within 30-45 days. Our trade and bills payables for the year ended 31 December 2018 amounted to RMB484,876,490, representing an increase of RMB52,941,970 or 12.26% from RMB431,934,520 for the year ended 31 December 2017. The increase in trade and bills payables for this period was mainly due to the increase of bills payables. The proportion of settlement of bills payables increased due to the good cooperation between the Group and the suppliers during the period. The longer credit periods for bills payables resulted in an increase in turnover days.

7. *Other payables and accruals*

Other payables and accruals consist of (i) advances from customers; (ii) payroll and welfare payables; (iii) accrued expenses; (iv) other payables; and (v) interest payables. The following table sets forth information relating to our other payables and accruals as of the dates indicated:

	As of 31 December			
Items	2017 *RMB'000*	**2018** ***RMB'000***	**Change** *RMB'000*	**Percentage of change**
Advances from customers/ contract liabilities	193,324.22	**130,737.04**	(62,587.18)	(32.37%)
Payroll and welfare payables	32,606.17	**31,604.16**	(1,002.01)	(3.07%)
Accrued expenses	10,126.34	**8,676.95**	(1,449.39)	(14.31%)
Other payables	109,408.52	**137,153.54**	27,745.02	25.36%
Bond interest payables	33,750.00	**33,750.00**	–	–
Total	379,215.25	**341,921.69**	(37,293.56)	(9.83%)

Our advances from customers/contract liabilities represent advance payments by customers for their procurements. Our advances from customers/ contract liabilities as of 31 December 2018 amounted to RMB130,737,040, representing a decrease of RMB62,587,180 or 32.37% from RMB193,324,220 as of 31 December 2017. The decrease was mainly because the disposal of the properties segment of the Group during the year was not consolidated into its balance sheet at the end of the period of consolidated statements, which resulted in the decrease in advance payment received from the property buyers.

Our payroll and welfare payables represent accrued payroll and welfare expenses to our employees. Our payroll and welfare payables as of 31 December 2018 amounted to RMB31,604,160, representing a decrease of RMB1,002,010 or 3.07% from RMB32,606,170 as of 31 December 2017. Such decrease was primarily due to the decrease in the number of staff in order to control the labor costs of the Group.

Our accrued expenses represent other current liabilities. Our accrued expenses as of 31 December 2018 amounted to RMB8,676,950, representing a decrease of RMB1,449,390 or 14.31% from RMB10,126,340 as of 31 December 2017. Such decrease was primarily due to the decrease in the overall number of stores of the Group in 2018, resulting in a decrease in related operating expenses.

Our other payables as of 31 December 2018 amounted to RMB137,153,540, representing an increase of RMB27,745,020 or 25.36% from RMB109,408,520 as of 31 December 2017. Such increase was primarily due to the increase in agency receipt and payment in 2018 and increase in outstanding investment expense of external investments.

8. *Net current assets position*

The following table sets forth our current assets and liabilities as of the dates indicated:

Items	As of 31 December 2017 RMB'000	2018 RMB'000	Change RMB'000	Percentage of change
Current assets				
Inventories	2,297,598.62	**2,541,786.99**	244,188.37	10.63%
Properties under development	82,121.40	**–**	(82,121.40)	(100.00%)
Completed properties held for sale	119,593.55	**–**	(119,593.55)	(100.00%)
Trade and bills receivables	1,986,805.59	**2,172,336.96**	185,531.37	9.34%
Prepayments, other receivables and other assets	1,357,764.66	**1,331,443.45**	(26,321.21)	(1.94%)
Loan receivables	300,000.00	**40,639.53**	(259,360.47)	(86.45%)
Due from controlling shareholders	–	**35,000.00**	35,000.00	–
Due from related parties	53,887.40	**168,711.06**	114,823.66	213.08%
Available-for-sale investment	210,000.00	**–**	(210,000.00)	(100.00%)
Pledged deposits	953,420.83	**660,251.41**	(293,169.42)	(30.75%)
Cash and cash equivalents	614,879.49	**708,547.70**	93,668.21	15.23%
Total current assets	7,976,071.54	**7,658,717.10**	(317,354.44)	(3.98%)
Current liabilities				
Interest-bearing loans and other loans	3,147,183.55	**3,066,638.12**	(80,545.43)	(2.56%)
Trade and bills payables	431,934.52	**484,876.49**	52,941.97	12.26%
Other payables and accruals	379,215.25	**341,921.69**	(37,293.56)	(9.83%)
Tax payable	285,124.20	**348,709.24**	63,585.04	22.30%
Due to related parties	2,300.98	**4,252.55**	1,951.57	84.81%
Total current liabilities	4,245,758.50	**4,246,398.09**	639.59	0.02%
Net current assets	3,730,313.04	**3,412,319.01**	(317,994.03)	(8.52%)

Our net current assets as of 31 December 2018 amounted to RMB3,412,319,010, representing a decrease of RMB317,994,030 or 8.52% from RMB3,730,313,040 as of 31 December 2017. Such decrease was primarily due to the reclassification from long-term bonds to current liabilities.

9. *Capital expenditure*

For the year ended 31 December 2018, the Group's capital expenditure amounted to RMB68,711,000, which was incurred mainly in relation to purchase and construction of fixed assets and decoration costs in connection with the opening of new outlets and the renovation of old ones.

10. *Related party transactions*

(a) The following table sets forth the total amounts of transactions that have been entered into with related parties during the years ended 31 December 2018 and 31 December 2017 and the balance with the related parties as of 31 December 2018 and 31 December 2017:

	Year	Sales to related parties *RMB'000*	Purchase from related parties *RMB'000*	Amounts owed by related parties *RMB'000*	Amounts owed to related parties *RMB'000*
Controlling shareholder:					
Digital Science & Technology Group Limited	**2018**	**–**	**–**	**35,000**	**–**
	2017	–	–	–	–
Associates:					
Shenzhen Dixin Nuclear Communication Co., Ltd.[1]	**2018**	**–**	**0.16**	**507.25**	**–**
	2017	–	13,274.62	–	1,493.25
Beijing Xinyi Technology Co., Ltd.[1]	**2018**	**132.60**	**2,725.34**	**10,963.65**	**10.71**
	2017	–	–	10,279.04	–
Shanghai Diju Information Technology Co., Ltd.[5]	**2018**	**47,826.25**	**–**	**–**	**–**
	2017	26,676.19	–	–	–
Joint ventures:					
Hollard-D.Phone (Beijing) Technology Development Co., Ltd.[2]	**2018**	**–**	**21,897.57**	**–**	**3,950.25**
	2017	–	2,727.31	2,533.28	–
Guangzhou Zhongqi Energy Technology Limited Company[2]	**2018**	**92,448.46**	**12,442.29**	**55,619.78**	**–**
	2017	70,369.59	12,897.79	36,911.49	–
Shanxi Hartcourt Intermediation Information Technology Co., Ltd[5]	**2018**	**–**	**–**	**–**	**–**
	2017	–	–	–	666.60
Fellow subsidiaries:					
Beijing Dphone Communication Services Co., Ltd.[3]	**2018**	**1,586.00**	**–**	**10,653.10**	**291.59**
	2017	220.11	–	3,986.90	141.13
Guang'an Dixin Cloud Communication Technology Co., Ltd.[3]	**2018**	**253.87**	**–**	**275.68**	**–**
	2017	395.58	–	149.89	–
Fushun Shenshang Commercial Real Estate Co., Ltd.[3]	**2018**	**–**	**–**	**90,000.00**	**–**
	2017	–	–	–	–
Company significantly influenced by the controlling shareholder					
Beijing Tianxingyuanjing Technology Development Co., Ltd.[4]	**2018**	**3,862.99**	**–**	**687.97**	**–**
	2017	–	–	26.80	–
Subsidiaries of non-controlling shareholders					
Beijing Digital China Limited[6]	**2018**	**–**	**15.08**	**2.92**	**–**
	2017	–	1,088.85	–	–
Digital China (Shenzhen) Limited[6]	**2018**	–	**–**	–	–
	2017	–	68.54	–	–

1 The investments in the associates, Shenzhen Dixin Nuclear Communications Co., Ltd.and Beijing Xinyi Technology Co., Ltd. are directly held by the Company.

[2] The investments in the joint ventures, Hollard-D.Phone (Beijing) Technology Development Co., Ltd. and Guangzhou Zhongqi Energy Technology Limited Company are directly held by the Company.

[3] The investments in the fellow subsidiary entities, Beijing Dphone Communication Services Co., Ltd., Guang'an Dixin Cloud Communication Technology Co., Ltd. and Fushun Shenshang Commercial Real Estate Co., Ltd. are directly held by the controlling shareholder of the Company.

[4] The investment in the entity, Beijing Tianxingyuanjing Technology Development Co., Ltd. is respectively held by Mr. Liu Donghai and Mr. Jinxin, who is the controlling shareholder and CEO of the Company. They jointly hold 25% equity interests aggregately and have significant influence over the entity.

[5] In May 2018, there was a change in proportion of shareholding. The investment of Shaanxi Hartcourt Intermediation Information Technology Co., Ltd. was accounted for the investment of joint ventures. In October 2018, the Group disposed of its long-term equity investments.

[6] Beijing Digital China Limited, Digital China (Shenzhen) Limited and Digital China (HK) Limited are all controlled by the ultimate holding company. Digital China Group Co., Ltd. Digital China (HK) Limited is the non-controlling shareholder of the Company and holds 23.75% equity interests of the Company.

The Board is of opinion that such related party transactions were based on normal commercial terms and conducted on an arm's length basis.

(b) Compensation of key management personnel of the Group:

	For the year ended 31 December	
	2018	**2017**
	RMB'000	***RMB'000***
Salaries, allowances, bonuses and other expenses	4,724	**4,359**

(c) Other transactions with related parties:

During the year, the Group disposed a subsidiary, Shenzhen Dphone Investment Co., Ltd., to the Company's controlling shareholder, Digital Science & Technology Group Limited at a consideration of RMB35,000,000, based on an internal valuation of the business performed by the management of the Company.

11. Interest-bearing bank and other borrowings

For the year ended 31 December 2018, our bank borrowings were primarily short term in nature and repayable within one year. The following table sets forth our outstanding borrowings as of the dates indicated:

	2018		2017	
	Maturity	***RMB'000***	Maturity	*RMB'000*
Current				
Bank loans:				
Unsecured, repayable within one year	**2019**	**950,500**	2018	1,083,000
Secured, repayable within one year	**2019**	**1,411,990**	2018	2,064,184
Corporate bond:				
Current portion	**2019**	**598,013**	2018	–
Other loans:				
Unsecured, repayable within one year	**2019**	**71,551**	2018	–
Secured, repayable within one year	**2019**	**34,584**	2018	–
		3,066,638		3,147,184
Non-current				
Corporate bond:				
Non-current portion		**–**	2020	596,542
		3,066,638		3,743,726

(V) Key financial ratios

The following table sets out our current ratio, gearing ratio and net debt-to-equity ratio as of the dates indicated:

Items	As of 31 December 2017	**2018**	**Change**	**Percentage of change**
Current ratio	1.88	**1.80**	(0.08)	(4.26%)
Gearing ratio	47.12%	**38.08%**	(9.04%)	(19.19%)
Net debt-to-equity ratio	89.11%	**61.51%**	(27.60%)	(30.97%)

Current ratio is our current assets divided by our current liabilities at the end of each financial period. Our current ratio remained relatively stable during the year ended 31 December 2018.

Gearing ratio is net debt divided by the sum of net debt and total equity at the end of each financial period and multiplied by 100%. Net debt includes interest-bearing bank loans plus bonds payable, less cash and cash equivalents. Our gearing ratio decreased from 47.12% as of 31 December 2017 to 38.08% as of 31 December 2018. Such decrease was primarily due to the decrease in short-term borrowings of the Company for 2018. Total equity as of 31 December 2018 amounted to RMB3,833,705,070, representing an increase of RMB322,363,790 or 9.18% from RMB3,511,341,280 as of 31 December 2017, and growth in total equity was primarily due to the increase in shareholders' equity capital for 2018. The Group's total retained profit as of 31 December 2018 amounted to RMB2,291,863,980, representing an increase of RMB295,012,300 or 14.77% from the total retained profit of RMB1,996,851,680 for the same period in 2017. Surplus reserves as of 31 December 2018 amounted to RMB276,615,060, representing an increase of RMB32,953,670 or 13,52% from RMB243,661,390 as of 31 December 2017. Net debt as of 31 December 2018 amounted to RMB2,358,090,420, representing a decrease of RMB770,755,730 or 24.63% from RMB3,128,846,150 as of 31 December 2017.

Net debt-to-equity ratio equals net debt divided by total equity as the end of the financial period and multiplied by 100%. Our net debt-to-equity ratio as of 31 December 2018 was 61.51%, which was 27.60% lower than 89.11% as of 31 December 2017, representing a decrease ratio of 30.97%. This was primarily due to the Company's significant decrease in net debt for 2018. Net debt as of 31 December 2018 amounted to RMB2,358,090,420, representing a decrease of RMB770,755,730 or 24.63% from RMB3,128,846,150 as of 31 December 2017. Decrease in our net debt was primarily due to the decrease in short-term borrowings of the Group for 2018.

(VI) Material acquisitions and disposals

Details of the Group's material acquisitions during the year ended 31 December 2018 are set out in the section headed "Material investments".

(VII) Contingent liabilities

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

(VIII) Use of proceeds

In 2014, we had completed the global public offering of 166,667,000 H shares in Hong Kong at an offer price of HK$5.30 per share, raising proceeds with an aggregate amount of HK$883,335,100 which had been placed in a special account.

The following table sets forth details of the proceeds in the special account as of the date indicated:

As of 31 December 2018 *Unit: HK$'000*

Account holder	**Banker**	**Account number**	**Amount**
Beijing Digital Telecom Co., Ltd.	Standard Chartered Bank (Hong Kong) Limited	44717867377	25,716.80

As of 31 December 2018, HK$878,581,620 out of the net proceeds had been utilised. As of 31 December 2018, the balance of the proceeds in the special account amounted to HK$25,716,800 (including accrued interest of HK$11,310).

To regulate the management of proceeds of the Company and protect investors' interests, the Company has formulated the "Regulations for the Management of Proceeds of Beijing Digital Telecom Co., Ltd." to set out specific provisions for the deposit, utilisation, management of fund application and supervision of use.

In accordance with the plan for the public offering, proceeds from the public offering of shares applied as to approximately 53.77% in the expansion of our retail and distribution network, approximately 13.51% in the repayment of bank loans, approximately 6.33% in the upgrade of information systems for further enhancement of our management ability, approximately 3.92% in the upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC, approximately 5.02% in multi-functional mobile internet projects and approximately 9.05% as working capital and for general corporate purpose. The applications of our proceeds as of the date indicated are set out in the following table:

	For the year ended 31 December 2018	
Items	**Amount paid**	**Percentage**
	HK$'000	
Expansion of retail and distribution network	472,414.94	53.77%
Repayment of bank loans	118,703.28	13.51%
Upgrade of information system to further improve management capability	55,584.09	6.33%
Upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC	34,472.32	3.92%
Undertaking multi-functional mobile internet projects	44,060.18	5.02%
Working capital and other general corporate purpose	79,519.08	9.05%
Payment of listing agency fees	73,827.73	8.40%
Total	878,581.62	100.00%

(IX) Foreign exchange rate risks

The Group's businesses are primarily located in Mainland China and the majority of transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group's exposure to foreign currency risk relates to the Group's bank deposits and other receivables denominated in USD, Euro and HKD. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, Euro and HKD exchange rates, with all other variables held constant, of the Group's profit after tax due and the Group's equity.

2018

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit after tax and equity** ***RMB'000***
If RMB weakens against USD	**5.00**	**8,081.00**
If RMB strengthens against USD	**(5.00)**	**(8,081.00)**
If RMB weakens against HKD	**5.00**	**845.00**
If RMB strengthens against HKD	**(5.00)**	**(845.00)**
If RMB weakens against EUR	**5.00**	**3,060.00**
If RMB strengthens against EUR	**(5.00)**	**(3,060.00)**

2017

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit after tax and equity *RMB'000*
If RMB weakens against USD	5.00	2,493.00
If RMB strengthens against USD	(5.00)	(2,493.00)
If RMB weakens against HKD	5.00	194.00
If RMB strengthens against HKD	(5.00)	(194.00)

(X) Pledge of assets

As of 31 December 2018, the Group had no other pledge of assets except for the pledged deposits amounting to RMB660,251,000 and pledged trade receivables amounting to RMB38,573,000.

(XI) Material investments

As of 31 December 2018, the Group had no material investment.

(XII) Equity arrangements

For the year ended 31 December 2018, no equity subscription was conducted by the Group. As of the date of this announcement, no equity scheme was made by the Group.

(XIII) Employees, remunerations and training programs for the employees

For the year ended 31 December 2018, the Group had 7,039 employees (45 employees in Yunfu). Salary costs and employees' benefit expenses amounted to approximately RMB580,341,750 for the twelve months ended 31 December 2018 (approximately RMB 1,606,480 for salary costs and employees' benefit expenses in Shenzhen Digitone). Remunerations for the Group's existing employees include salaries, performance-based bonus, social insurance, housing provident fund and other benefits.

In order to improve the overall quality of the employees, the operation efficiency of the Company and the quality of its services, the Group has already held and will continue to hold various training programmes for the employees, including training on professional quality, corporate culture, exchange of product and business information, and management skills for middle and senior management members. The trainings are carried out in various forms, mainly through online learning, seminars and conferences and on-site skill specific training programmes.

(XIV) Capital

No material change occurred in the capital structure of the Company during the year ended 31 December 2018.

(XV) Future material investment

The Group does not have any material investment plan in the near future.

III. BUSINESS OUTLOOK FOR 2019

For the year of 2018, the 4G communications market will substantially be saturated, and it is expected that less consumers will have intention to buy new mobile handsets. The commercialization of 5G technology is going to be put on the agenda, which will bring an unstoppable new trend to the retail market. Facing such changes in the market, we have to enhance the Company's performances with the focus on the following aspects:

(I) To prioritize the improvement on the profitability of the physical retail outlets

On the one hand, we shall increase the profitability in existing outlets by provision of training to our staff, negotiation of rental reduction and cooperation with manufacturers. On the other hand, we shall open exclusive stores at county level through cooperation with manufacturers and open more franchise outlets in suitable cities at county level in order to increase our sales scale in the market.

(II) To develop our offline physical outlets steadily and at the same time continue to increase the proportion of our online business in order to further realise the integration of our online to offline ("**OTO**") business

In 2019, we shall also take advantage of the competitive edges of our geographical coverage. By leveraging on various means, such as our official website, mobile stores, credit card mall and Tmall's flagship stores, we can provide service through integration of online and offline business stream, so as to realise the integration and development of our OTO business.

(III) To enhance our cooperation with three major mobile carriers

On the one hand, we shall jointly operate our outlets with the mobile carriers. On the other hand, we shall tap into minor communities and the wholesale market through our mobile points of sale for the development of our contract business, sales of mobile handsets and accessories and provision of communication services for the convenience of the public.

To support China Mobile Group's Internet of Things ("**IOT**") strategy, significant effort will be made to develop and apply new business and expand the sales and service business of unmanned flying vehicles.

(IV) To enhance value of the Group's own brand by capturing the optimal growth period of IOT

During the first year of 5G in 2019, the IOT segment and market has undergone a rapid development. As the earliest communication digital channel entering the IOT segment, we will, on the one hand, continue to enrich our IOT products and increase its revenue to over 50%. On the other hand, we will actively cooperate with integrated brands, such as Huawei and Xiaomi, and smart trendy brands, such as BOSS, to become a core channel of its offline expansion. Until the competitive landscape is settled down, by leveraging on our own sales and distribution capabilities of our self-owned and franchise outlets, we are committed to developing a IOT self-owned brand in 2019 and capturing market share, so as to realise the growth both on our scale and effectiveness.

(V) To improve our services quality and enhance brand influence

In 2016, we introduced customer service hotline with dedicated staff solving the problems our end users might face. Our concept of "full-hearted loyalty" has been well received by our large amount of customers and has accumulated a large number of fans of Beijing Digital. In 2017, we opened a dedicated customer services and call center to fulfill the after-sale demand from our customers to the greatest extent. In 2019, we shall continue to intentively pursue the "full-hearted loyalty" concept in order to enhance our prestige and reputation through provision of quality services, so as to enhance the Group's brand influence and ultimately achieve sales growth.

(VI) To continue expanding overseas mobile business

We will continue to enhance our competitive edges in 2019. In 2018, we have tapped into the Western Europe market and became the largest Xiaomi operator in Spain with outstanding profit performance. In 2019, the Company will actively development its mobile handsets retail and distribution business in Thailand and Bangladesh.

(VII) To actively introduce a new retail concept in the mobile & smart & trendy retail industry and to start a new retail revolution focused on customer experience under the new retail transformation

From 2017 to date, we have established new D.PhoneUP+ stores in landmark shopping malls over 10 cities, including Beijing, Shanghai, Chongqing, Xi'an. By leveraging on differentiable, fashionable, thematic, interesting, humanized, entertaining, daily-used and smart products, traditional retail stores were improved and upgraded to provide enjoyable experience for our customers. Furthermore, our street stores will be fully upgraded and transformed in 2019. On the one hand, the stores will be rearranged by their categories while over half of them will be used to present IOT products and trendy products as well as provide our customers with comprehensive services. On the other hand, the overall design and style of our stores will become cleaner and more stylish by combining aesthetic standards of the 80s, 90s and 00s generations, so as to enhance the shopping experience of our customers in every detail.

(VIII) To implement our strategies in all channels

We will establish a standardised platform that can achieve our objective of bringing our staff, products, customers and management online to realize online and offline full integration. In this regard, we will develop a middle stage system consisted of business and data middle stage, establishing "a large middle stage and a small front stage". In respect of the frontline system, we will establish a contact method between WeChat Work and WeChat, which will open up a seamless contact between corporate staff and customers, so as to implement our strategies in all channels with our front, middle and back stage system.

USE OF NET PROCEEDS FROM LISTING

Details for the use of the proceeds from listing during the year ended 31 December 2018 are set out in the section headed "Use of Proceeds" under "Management Discussion and Analysis".

FINAL DIVIDEND

The Board did not recommend any final dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of shareholders of the Company will be closed from 6 May 2019 to 5 June 2019 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting to be held on 5 June 2019. Shareholders are required to lodge all transfer documents, accompanied by relevant share certificates and transfer forms, with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 3 May 2019.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance. During the year ended 31 December 2018, save as disclosed in this announcement, the Company has complied with all the code provisions of the CG Code and adopted most of the best practices.

According to code provision A.2.1 under the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Given Mr. Liu Donghai's background, qualification and experience in the Company, he is deemed as the best qualified person to take up both roles at present stage. The Board considers that it is beneficial to the Company at the present stage to have Mr. Liu Donghai's taking up both roles as it helps to maintain the continuity of the Company's policies and the stability and efficiency of the Company's operations and is appropriate and to the best interests of the Company. The Board will meet quarterly to review the operation of the Company under Mr. Liu Donghai's leadership. Thus, the Board does not consider that such arrangement will impair the balance of power and authority between the Board and the management of the Company. The Company will continue to review and enhance its corporate governance to ensure the compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct for Directors' and supervisors' securities transactions. Having made specific enquiry with the Directors and supervisors, all of the Directors and supervisors confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Audit Committee, together with the management and the external auditor, has reviewed the accounting principles and practices adopted by the Group and reviewed the annual results of the Group for the year ended 31 December 2018.

This annual results announcement is based on the audited consolidated financial statements of the Group for the year ended 31 December 2018 which have been agreed with the auditor of the Company.

PUBLICATION OF ANNUAL RESULTS AND 2018 ANNUAL REPORT

This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (www.hkexnews.hk) and the Company (www.dixintong.com). The Company's 2018 annual report containing all the information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted with effect from 9:00 a.m. on Friday, 29 March 2019 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in shares of the Company with effect from 1:00 p.m. on 29 March 2019.

By order of the Board
Beijing Digital Telecom Co., Ltd.
LIU Donghai
Chairman and executive Director

Beijing, 28 March 2019

As at the date of this announcement, the executive Directors are Mr. LIU Donghai, Mr. LIU Yajun, Mr. LIU Songshan and Ms. LIU Wencui; the non-executive Directors are Mr. QI Xiangdong and Ms. XIN Xin; and the independent non-executive Directors are Mr. LV Tingjie, Mr. BIAN Yongzhuang and Mr. ZHANG Senquan.