北京迪信通商貿股份有限公司
Beijing Digital Telecom Co., Ltd.

# 2018
# ANNUAL REPORT

## THE FUTURE
## of new retail

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code : 06188

# Contents

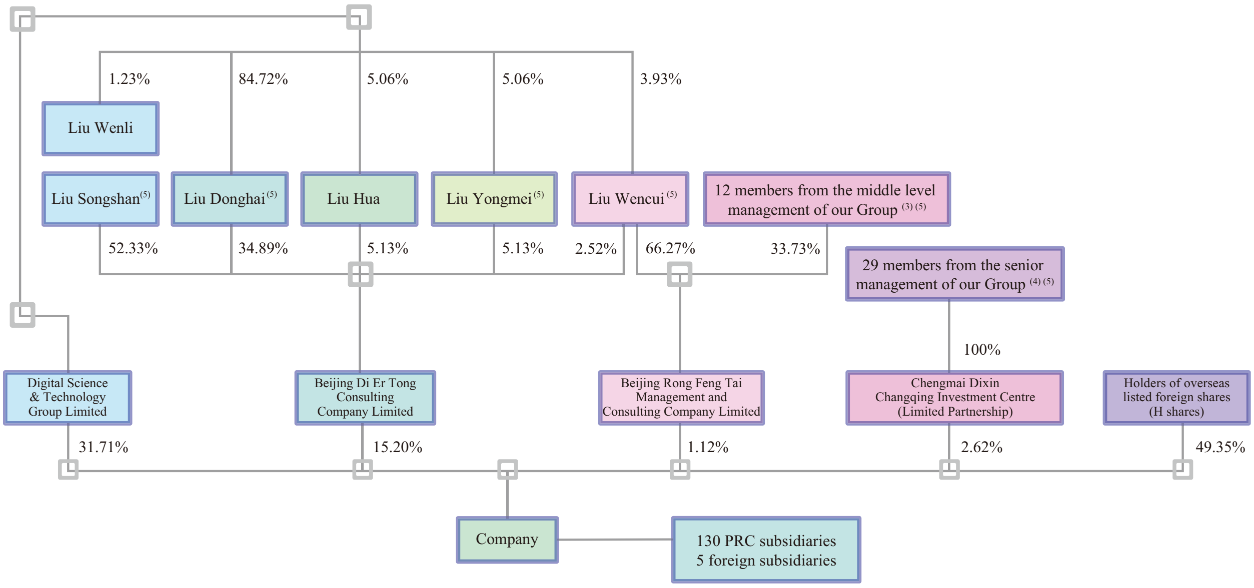
# COMPANY PROFILE

Beijing Digital Telecom Co., Ltd. (the "**Company**" or "**Beijing Digital**") was founded in 2001 and has been listed in Hong Kong (stock code: 06188.HK) since 2014.

As at 31 December 2018, the Company had over 100 subsidiaries (collectively referred to as the "**Group**" or "**we**") and had opened more than 1,600 independently operated outlets and franchised outlets in 22 provinces and 4 municipalities over China. Since its establishment, the Group has been focusing on the sales of mobile telecommunication devices and the provision of related services. With its extensive offline sales channels and online sales platform, the Group provides comprehensive services to consumers, ranging from the sales of mobile phone hardware and accessories, provision of value-added services for software, and provision of personalized services for mobile phones and aftersales services. To better adapt to the development environment of the retail industry under the new market situation at home and abroad, the Group has steadily launched new retail business, diversified merchandise sales business and overseas business through multi-channel operation system and multi-dimensional service model in recent years, so as to consolidate market competitiveness and brand influence.

Leveraging on its core competitive edge gained from its services and innovation, the Group persists in creating excellent experience and true value for the customers through its quality products, convenient shopping environment and attentive one-stop services.

The corporate structure of our Group as at 31 December 2018 is set out as follows:




*Notes:*

(1) *As of the latest practicable date, 105 PRC subsidiaries and 1 foreign subsidiary are wholly-owned by our Company while 25 other PRC subsidiaries and 4 foreign subsidiaries are not wholly-owned by our Company. The shareholding of these 25 non-wholly-owned PRC subsidiaries is set out below:*

(i) *60% of the equity interests of Henan Digital Trading Company Limited (河南迪信通商貿有限公司) is held by us and the remaining 40% is held by Mr. Tang Cheng (唐成), who is an independent third party. The wholly-owned subsidiaries of Henan Digital Trading Company Limited are: Gansu Digital Trading Company Limited (甘肅迪信通商貿有限公司), Guangzhou Digital Communication Company Limited (廣州迪信通通訊有限公司), Jiangxi Chuangfa Trading Company Limited (江西創發商貿有限責任公司), Henan Time Space Electronic Technology Company Limited (河南時間空間電子科技有限公司) and Henan Difeng Culture Communication Company Limited (河南迪鋒文化傳播有限公司).*

(ii) *52% of the equity interests of Sichuan Soujizhijia Electronics Technology Company Limited (四川搜機之家電子科技有限公司) is held by us and the remaining 48% is held by Shanghai Wangci Digital Technology Company Limited (上海網賜數碼科技有限公司) with 40% and Mr. Yaobo (姚波) with 8%, which are independent third parties.*

(iii) *55% of the equity interests of Beijing Yihaotong Orient Information Technology Company Limited (北京億號通東方信息技術有限公司) is held by us and the remaining 45% is held by Ms. Chen Jinling (陳金玲), who is an independent third party.*

(iv) *70% of the equity interests of Yunnan Jiyue Telecommunications Technology Company Limited (雲南繼躍通信技術有限公司) is held by us and the remaining 30% is held by Mr. Luo Jianjun (羅建軍), who holds 3.33% of the equity interests of Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司) as of the date of this annual report.*

(v) *55% of the equity interests of Beijing 19 Where Internet Technology Company Limited (北京易久維互聯科技有限公司) is held by us and the remaining 45% is held by Mr. GuiJie (桂捷), who is an independent third party.*

(vi) *80% of the equity interests of Yunnan Difeng Technology Company Limited (雲南迪峰科技有限公司) is held by us and the remaining 20% is held by Sun Wenjia (孫文佳) and Tian Huajun (田華軍) respectively, both of whom are independent third parties and 10% is held by each of them.*

(vii) *86% of the equity interests of Shenyang Dichuang Enterprise Management Company Limited (瀋陽迪創企業管理有限公司) is held by us and the remaining 14% is jointly held by Mr. Li Jiashun (李嘉順), Ms. Peng Wenqiong (彭文琼) and the shareholders of Chengmai Dixin Changqing Investment Centre (澄邁迪信長青投資中心), namely Mr. Sun Gang (0.57%) and Mr. Yao Guangyuan (0.11%), all of whom are independent third parties.*

(viii) *75% of the equity interests of Chongqing DIGITONE Intelligent Technology Company Limited (重慶迪信通智能技術有限公司) is held by us and the remaining 25% is held by Chongqing Youtong Equity Investment Fund Partnership (Limited Partnership) (重慶市友潼股權投資基金合夥企業(有限合夥)).*

*(ix) 80% of the equity interests of Beijing Dixin Alliance Technology Co., Ltd. (北京迪信雲聚科技有限公司) is held by us and the remaining 20% is held by Mr. Jin Xin (金鑫).*

*(x) 51% of the equity interests of Beijing Digital Technology and Trading Co., Ltd. (北京迪信通科貿有限公司) is held by us and the remaining 49% is held by Beijing Huidi Chuangxin Technology Co., Ltd. (北京惠迪創信科技有限公司).*

*(xi) 51% of the equity interests of Beijing Dirong Consulting Service Company Limited (北京迪融諮詢服務有限公司) is held by us and the remaining 49% is held by Beijing Ruilei Consulting Service Company Limited (北京銳雷諮詢服務有限公司).*

*(xii) 51% of the equity interests of Guangan Zhuopin Era Technology Co., Ltd (廣安卓品時代科技有限公司) is held by us and the remaining 49% is held as to 29.4% by Wang Liang (王亮) and 19.6% by Wei Wenfei (衛文斐) respectively. It owns 51% of the equity interests of its subsidiary Yunnan Yingmi Technology Company Limited (雲南英米科技有限責任公司), which owns 51% interests in the subsidiary Hebei Yingmijia Technology Company Limited (河北英米家科技有限公司).*

*(xiii) 75% of the equity interests of Shanghai Yushen Technology Company Limited (上海昱申科技有限責任公司) is held by us and the remaining 25% is held as to 10% by Beijing Abujia Management Consulting Company Limited (北京阿卟伽管理諮詢有限公司) and 5% by independent third parties, Li Wenhua (李文華), Wen Yuguang (文宇光) and Du Li (杜莉) respectively. Shanghai Yushen Technology Company Limited owns 100% interests in the subsidiary Beijing Abu Technology Co., Ltd. (北京阿卟科技有限公司) and owns 60% interests in the subsidiary Shanghai Abujia Technology Co., Ltd. (上海阿卟伽科技有限公司), which is owned as to 15% by Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司).*

*(xiv) 80% of the equity interests of Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd. (北京網聚迪信優品互聯網科技有限公司) is held by us and the remaining 20% is held by an independent third party, Liu Zhigang (劉志剛).*

*(xv) 60% of the equity interests of Beijing Bailifeng Technology Company Limited (北京百立豐科技股份有限公司) is held by us and the remaining 40% is held by Chongqing Bailifeng Technology Company Limited 重慶百立豐科技有限公司.*

*(xvi) 75% of the equity interests of Shenzhen DIGITONE Technology Company Limited (深圳市迪信通科技有限公司) is held by us and the remaining 25% is held by an independent third party, Yang Yuhe (楊濡赫).*

*The shareholdings of the 4 non-wholly owned foreign subsidiaries are set out below:*

*(i) 72% of the equity interests of New Idea Investment Pte Limited (新迪亞投資有限公司) is held by us and the remaining 28% is held as to 20% by ZTE Corporation (中興通訊股份有限公司) and 8% by Shanghai Shengshan Pushang Investment Zhongxing (Limited Partnership) (上海盛山普尚投資中興（有限合夥）) respectively. It owns 60% of the equity interests of its subsidiary Digitone Mobiles Private Limited.*

*(ii) 80% of the equity interests of Beijing Digital (Spain), S. L. (西班牙迪信通有限公司) is held by us and the remaining 20% is held by XIAOCASE,S.L.. Its wholly-owned subsidiary is Beijing Digital (Portugal) – BDP (葡萄牙迪信通有限公司).*

*(2) As one of the largest physical retail store networks in the PRC mobile telecommunications sector, we maintain our leading position by conducting our business through 130 subsidiaries and 5 foreign subsidiaries spreading across 21 provinces and 4 municipalities. These subsidiaries are mainly to operate individual standalone outlets and liaise with local wholesalers.*

*(3) As at 31 December 2018, 12 members from the middle level management of the Group include Luo Jianjun (3.33%), Cao Qin (1.33%), Hu Ping (1.33%), Zhao Shuang (1.33%), Hou Qinghong (0.93%), Huang Qiuli (0.82%), Li Xuehua (0.64%), Qi Qin (0.64%), Zhang Shuangping (0.64%), Hu Minghua (0.53%), Dong Shaorong (0.40%) and Pei Qidi (0.13%). The remaining 8 persons who had ceased to assume any role in the management team of the Group were Zhang Wenkai (16.00%), Zhang Hui (1.33%), Li Jing (0.82%), Li Dong (0.53%) , Jiang Shan (0.82%), Li Yunping (0.82%), Tian Hong (0.53%) and Jiang Xuefu (0.82%).*

*(4) As at 31 December 2018, 29 members from the senior management of the Group include Jin Xin (17.14%), Zhou Qing (9.71%), Qi Feng (9.15%), Zhang Tianyu (6.86%), Bai Ren (5.83%), Liu Yajun (4.57%), Huang Jianhui (2.86%), Xu Guliang (2.86%), Li Xuerong (2.00%), Li Kai (1.94%), He Lingli (1.89%), Zhong Dalin (1.89%), Zhang Ning (1.71%), Chen Lin (1.43%), Li Dongmei (3.71%), Li Wanqing (1.37%), Sun Chengdong (1.31%), Zhang Jun (1.23%), Ji Li (0.97%), Sun Gang (0.57%), Pei Qidi (0.57%), Qiao Junjie (0.51%), Chen Hong (0.29%), He Junchao (0.29%), Peng Qiyi (0.29%), Yang Jianguo (0.27%), He Zhiwei (0.17%), Yao Guangyuan (0.11%) and Xiao Chunmei (1.03%). Liu Yajun is an executive Director of our Company. The remaining 14 persons who had ceased to assume any role in the management team of the Group were Feng Lei (1.14%), Pang Hong (0.57%), Wang Zhifeng (0.86%), Wang Zhenfeng (0.57%), Leng Jianchuang (2.86%), Yang Xiaomei (3.17%), Ding Zhijun (2.69%), Tang Zhiqiang (2.00%), Guo Weijuan (1.94%), Jing Shulin (0.57%), Zhao Bin (0.49%), Cao Wenying (0.29%), Fang Hongbao (0.17%) and Pang Hongqiang (0.17%).*

*(5) The Directors, Supervisors and members of the senior management who directly or indirectly having an interest in the shares of the Company are as follows: (a) Liu Donghai, chairman and executive Director; (b) Liu Yajun, vice chairman and executive Director; (c) Liu Songshan, vice chairman and executive Director; (d) Liu Wencui, executive Director; (e) Qi Feng, vice general manager; (f) Zhou Qing, vice general manager; (g) Huang Jianhui, vice general manager; and (h) Li Dongmei, vice president, secretary to the Board of Directors, joint company secretary and chief legal officer. Each of the above Directors and members of the senior management undertakes that, upon the Listing, pursuant to the PRC Company Law, he/she will continuously declare to the Company his/her direct or indirect interest in the shares of the Company, and will comply with the following restrictions: (1) he/she shall not transfer his/her respective direct or indirect interests in the Shares within one year after Listing; (2) he/she shall not transfer more than 25% of his/her respective direct or indirect interests in the Shares each year during the tenure; and (3) he/she will not transfer any of his/her respective direct or indirect interests in the Shares within six months after his/her departure from the Company. If the undertaking is breached, each of the above Directors, Supervisors and members of the senior management agrees that since the date of breach, (1) the Company may withhold from paying his/her respective remuneration or other benefits; (2) the Company may withhold from vesting dividends under his/her respective direct or indirect interests in the Shares; and (3) the Company may terminate the employment agreement or service contract, as applicable, with the relevant person unilaterally without any recourse to the Company (save for the benefits already accrued prior to such breach).*

## PRINCIPAL OPERATING SUBSIDIARIES

As of the latest practicable date, we had 130 subsidiaries in the PRC and 5 subsidiaries overseas. Beijing Dphone Electronic Communication Technology Co., Ltd. ("**Beijing Dphone**") was established on 16 January 1998 in the PRC with a registered capital of RMB10 million. During the year ended 31 December 2018, the entire equity interests of Beijing Dphone were held by our Company.

Beijing Dphone is primarily engaged in service providing, developing, consulting, transferring of technologies related to computer and cyber engineering, telecommunication commerce and the wholesales and maintenance of telecommunication devices.

Shanghai Dixin Electronic Communication Technology Co., Ltd. ("**Shanghai Dixin**") was established on 5 September 2000 in the PRC with a registered capital of RMB20 million. During the year ended 31 December 2018, the entire equity interests of Shanghai Dixin were held by our Company.

Shanghai Dixin is primarily engaged in service providing, developing, consulting, transferring of computer and cyber engineering technology, telecommunication commerce and the wholesales and maintenance of telecommunication devices.

Zhengzhou Dphone Electronic Communication Technology Co., Ltd. ("**Zhengzhou Dphone**") was established on 25 October 2001 in the PRC with a registered capital of RMB13 million. During the year ended 31 December 2018, the entire equity interests of Zhengzhou Dphone were held by our Company. Zhengzhou Dphone is primarily engaged in the wholesales and maintenance of telecommunication devices.

Henan Dphone Electronic Communication Technology Co., Ltd. ("**Henan Dphone**") was established on 30 July 2007 in the PRC with a registered capital of RMB20 million. During the year ended 31 December 2018, the entire equity interests of Henan Dphone were held by our Company. Henan Dphone is primarily engaged in the sales and maintenance of telecommunications devices.

Henan Dphone Trading Co., Ltd.("**Henan Dphone Trading**") was established on 12 January 2011 in the PRC with a registered capital of RMB10 million. During the year ended 31 December 2018, 60% of the equity interests of Henan Dphone Trading were held by the Company and the remaining 40% is held by Mr. Tang Cheng (唐成), who is an independent third party. Henan Dphone Trading is primarily engaged in the sales and maintenance of telecommunication devices.

Sichuan Yijialong Communication Technology Chain Co., Ltd. ("**Sichuan Yijialong**") was established on 23 October 2006 in the PRC with a registered capital of RMB5 million. During the year ended 31 December 2018, the entire equity interests of Sichuan Yijialong were held by the Company. Sichuan Yijialong is primarily engaged in the sales and maintenance of telecommunication devices.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Liu Donghai *(Chairman)*
Mr. Liu Yajun
Mr. Liu Songshan
Ms. Liu Wencui

### Non-executive Directors

Mr. Qi Xiangdong
Ms. Xin Xin

### Independent Non-executive Directors

Mr. Lv Tingjie
Mr. Bian Yongzhuang
Mr. Zhang Senquan

### Supervisors

Ms. Wei Shuhui
Mr. Li Wanlin
Mr. Hu Yuzhong

## JOINT COMPANY SECRETARIES

Ms. Li Dongmei
Ms. Lam Yuk Ling

## AUTHORIZED REPRESENTATIVES

Mr. Liu Yajun
Ms. Li Dongmei

## AUDIT COMMITTEE

Mr. Zhang Senquan *(Chairman)*
Mr. Lv Tingjie
Mr. Bian Yongzhuang

## NOMINATION COMMITTEE

Mr. Lv Tingjie *(Chairman)*
Mr. Liu Songshan
Mr. Bian Yongzhuang

## REMUNERATION AND ASSESSMENT COMMITTEE

Mr. Bian Yongzhuang *(Chairman)*
Ms. Xin Xin
Mr. Zhang Senquan

## STRATEGY COMMITTEE

Mr. Liu Donghai *(Chairman)*
Mr. Liu Yajun
Mr. Liu Songshan
Mr. Qi Xiangdong
Mr. Lv Tingjie

## REGISTERED OFFICE

No. 101, 4/F, C Yi'an Business Building
18 Building Yi'an Jiayuan
Beiwa West
Haidian District
Beijing
PRC

## HEADQUARTERS

No. 101, 4/F, C Yi'an Business Building
18 Building Yi'an Jiayuan
Beiwa West
Haidian District
Beijing
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 07, 21/F, West Tower, Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

## H SHARE REGISTRAR

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

## LEGAL ADVISERS

As to Hong Kong law and United States law:
Clifford Chance
27th Floor, Jardine House
One Connaught Place
Central
Hong Kong

As to PRC law:
Zhong Lun Law Firm
36–37/F, SK Tower
6A Jianguomenwai Avenue
Beijing
PRC

## AUDITOR

Ernst & Young
*Certified Public Accountants*
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

## STOCK CODE

6188

## COMPANY'S WEBSITE

www.dixintong.com

## PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
(Lincui Road Sub-branch, Beijing)
Block 24, Yilin Jiayuan
Lincui Road
Chaoyang District
Beijing
PRC

Shanghai Pudong Development Bank Co., Ltd.
(Business Department of Beijing Branch)
18 Taipingqiao Avenue
Xicheng District
Beijing
PRC

China Minsheng Banking Corp. Ltd.
(Fuchengmen Sub-branch, Beijing)
2 Fuwai Avenue
Xicheng District
Beijing
PRC

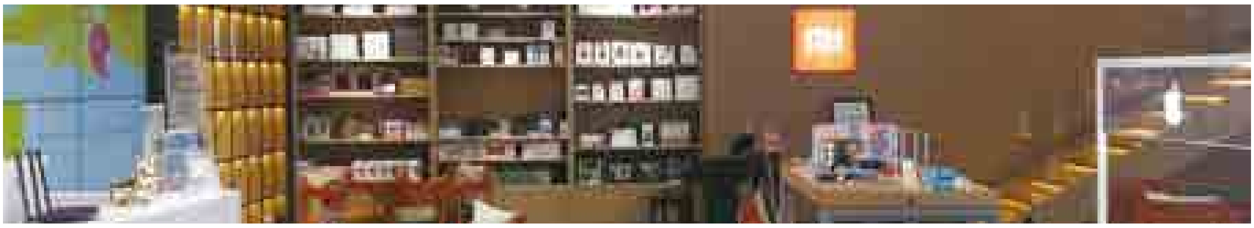
Citibank (China) Co., Ltd.
(Beijing Branch)
17/F, Excel Centre
6 Wudinghou Avenue
Xicheng District
Beijing
PRC

# FINANCIAL HIGHLIGHTS

| Items | For the year ended 31 December<br>2018 | 2017 | 2016<br>(Restated) | 2015 | 2014 |
|---|---|---|---|---|---|
| **Consolidated Statement of Profit or Loss** | | | | | |
| Revenue | **15,054,664** | 15,974,316 | 15,177,126 | 15,830,720 | 14,358,609 |
| Gross Profit | **1,927,276** | 2,000,168 | 1,855,678 | 2,034,117 | 1,976,592 |
| Profit for the year | **322,101** | 322,947 | 357,011 | 356,723 | 318,630 |
| Other comprehensive income profit/loss for the year | **2,588** | (1,075) | – | – | – |
| Total comprehensive income for the year | **324,689** | 321,872 | 357,011 | 356,723 | 318,630 |
| Attributable to: | | | | | |
| Owners of the parent | **331,792** | 321,415 | 356,358 | 357,062 | 318,133 |
| Non-controlling interests | **(7,103)** | 457 | 653 | (339) | 227 |
| Attributable to ordinary equity holders of the parent | | | | | |
| Earning per share – Basic and diluted (RMB/per share) | **0.49** | 0.48 | 0.53 | 0.54 | 0.55 |
| **Consolidated Balance Sheet** | | | | | |
| Non-current assets | **421,386** | 377,571 | 308,809 | 298,712 | 247,947 |
| Current assets | **7,658,717** | 7,976,072 | 7,013,306 | 6,848,862 | 5,199,352 |
| Total assets | **8,080,103** | 8,353,643 | 7,322,115 | 7,147,574 | 5,447,299 |
| Current liabilities | **4,246,398** | 4,245,759 | 4,152,501 | 4,301,072 | 3,026,096 |
| Total assets less current liabilities | **3,833,705** | 4,107,884 | 3,169,614 | 2,846,502 | 2,421,203 |
| Non-current liabilities | **–** | 596,542 | – | 48,000 | – |
| Net assets | **3,833,705** | 3,511,342 | 3,169,614 | 2,798,502 | 2,421,203 |
| Share Capital | **666,667** | 666,667 | 666,667 | 666,667 | 666,667 |
| Reserves | **3,093,663** | 2,764,392 | 2,442,977 | 2,086,619 | 1,732,867 |
| Equity attributable to owners of the parent | **3,760,330** | 3,431,059 | 3,109,644 | 2,753,286 | 2,399,534 |
| Non-controlling interests | **73,375** | 80,283 | 59,970 | 45,216 | 21,669 |
| **Consolidated Statement of Cash Flow** | | | | | |
| Net cash flows from/(used in) operating activities | **266,249** | 69,585 | 461,744 | (119,157) | (790,582) |
| Net cash flows from/(used in) investment activities | **350,890** | (638,591) | (163,668) | (174,334) | (81,790) |
| Net cash flows from/(used in) financing activities | **(524,234)** | 400,278 | 44,262 | 400,037 | 905,731 |
| Net increase/(decrease) in cash and cash equivalents | **92,905** | (168,728) | 342,338 | 106,546 | 33,359 |
| Cash and cash equivalents at beginning of year | **614,879** | 784,756 | 441,844 | 335,298 | 301,939 |
| Effect of foreign exchange rate changes on cash flow | **764** | (1,149) | 574 | – | – |
| Cash and cash equivalents at end of year | **708,548** | 614,879 | 784,756 | 441,844 | 335,298 |

# CHAIRMAN'S STATEMENT

# CHAIRMAN'S STATEMENT



Dear Shareholders,

I am pleased to announce the annual results of the Company for the year ended 31 December 2018. The total revenue of the Company decreased by RMB919,652,460 to RMB15,054,663,940. The net profit for the year of 2018 amounted to RMB322,101,470, representing a decrease of 0.26%. In 2018, the sales of mobile handsets decreased by 588,400 sets as compared with the same period last year. For detailed analysis on the financial data, please refer to the results announcement of the Company for the year 2018.

Over the past year, in order to better adapt to the development needs of the retail industry in the new domestic situation, we have put in great effort to carry out new retail businesses and sales of diversified commodity while continuing to expand high-quality physical stores. We are also operating multiple channels and providing multifaceted services in different countries, thereby continuously expanding our market competitiveness and brand influence.

With regard to our new retail business, we have established our brands such as UP+ and Yingmijia (英米家). Currently, we have more than 100 stores across the country, and the products for sales have won unanimous acclaim from the cooperative partners and consumers. With regard to sales of diversified commodities, while continuing to create good results in the sales of mobile handsets, we have brought in the sales of futuristic technological products such as smart home, smart wear and intelligent robots and obtained certain market share. With regard to our multi-channel operation, on the one hand, we have cooperated with various sales platforms to promote our brands in establishing a presence in major shopping centers. For example, UP+ joined forces with China Telecom to build the Xi'an future experience store while Yingmijia teamed up with China Mobile to forge the Nanjing future city store, which showed initial branding effect. On the other hand, we have strengthened cooperation with the three major carriers, namely China Mobile, China Unicom and China Telecom, in artificial intelligence and Internet of Things, prompting Beijing Digital to become the "Smart Life Service Provider" in the era of 5G communications. In regard to overseas market, we entered into the Western Europe market, becoming the largest Mi Homes (小米之家) operator in Spain with outstanding profit performance in 2018. In 2019, the Company will actively pursue its mobile handsets retail and distribution business in Thailand and Bangladesh.

In 2019, we will continue to leverage our accumulated experience in the new retail business. At the same time, we will rely on the newly established retail business group to integrate the core business competences of UP+ and Yingmijia, and focus on building four business platforms namely the brand omni-channel marketing platform, multi-category product supply chain platform, digitalized platform across all businesses and upgrading the brand and store image, to continuously enhance the brand's comprehensive competitiveness. We are commencing an upgrade to the brand, upgrading the model of our existing stores, where Beijing Digital will be fully shaped into the "Smart Life Service Provider" in the era of 5G communications.

# MANAGEMENT DISCUSSION & ANALYSIS

# 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, among 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.

| Items | For the year ended 31 December<br>2017<br>RMB'000 | <br>**2018**<br>**RMB'000** | <br>**Change**<br>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 in-depth 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:

| Items | 2017 | | 2018 | | Change | Percentage of change |
|---|---|---|---|---|---|---|
| | | For the year ended 31 December | | | | |
| | RMB'000 | % of total revenue | **RMB'000** | **% of total revenue** | 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 discontinued operations** | | | | | | |
| Cost of sales of properties | 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** | | | **Change** | **Percentage of change** |
| | RMB'000 | % of total gross profit | Gross profit margin | **RMB'000** | **% of total gross profit** | **Gross profit margin** | RMB'000 | |
| 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 RMB'000 | **2018 RMB'000** | **Change** RMB'000 | **Percentage of change** |
| 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 2017 RMB'000 | Selling and distribution expenses 2018 RMB'000 | % of total expenses 2017 | % of total expenses 2018 | Change RMB'000 | Percentage of change |
|---|---|---|---|---|---|---|
| | For the year ended 31 December | | | | | |
| 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 | | | Percentage |
| | 2017 | **2018** | 2017 | **2018** | Change | of change |
| | 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.

| Items | For the year ended 31 December 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*

| Item | For the year ended 31 December 2017 RMB'000 | **2018 RMB'000** | **Change** RMB'000 | **Percentage of change** |
|---|---|---|---|---|
| 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:

| **Items** | 2017<br>RMB’000 | **2018**<br>**RMB’000** | **Change**<br>RMB’000 | **Percentage of change** |
|---|---|---|---|---|
| | **For the year ended 31 December** | | | |
| 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<br>RMB'000 | **2018**<br>**RMB'000** | **Fluctuation**<br>RMB'000 | **Percentage of Fluctuation** |
| 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<br>RMB'000 | **2018**<br>**RMB'000** | **Fluctuation**<br>RMB'000 | **Percentage of Fluctuation** |
| 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 annual report, 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<br>2017<br>RMB'000 | <br>**2018**<br>**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**<br>2017<br>Number of days | <br>**2018**<br>**Number of days** | <br>**Change in number of days** | <br><br>**Percentage of change** |
|---|---|---|---|---|
| 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:

| Items | As of 31 December 2017 RMB'000 | **2018 RMB'000** | **Fluctuation** RMB'000 | **Percentage of Fluctuation** |
|---|---|---|---|---|
| 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:

| Items | As of 31 December<br>2017<br>RMB'000 | <br>**2018**<br>**RMB'000** | <br>**Change**<br>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:

| Period | As of 31 December<br>2017<br>RMB'000 | <br>**2018**<br>**RMB'000** | <br>**Change**<br>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<br>2017<br>Number of days | **2018<br>Number of days** | **Change in<br>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<br>2017<br>RMB'000 | **2018<br>RMB'000** | **Change**<br>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 RMB'000 | **2018 RMB'000** | Change RMB'000 | Percentage of change |
|---|---|---|---|---|
| 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 RMB'000 | **2018 RMB'000** | Change RMB'000 | Percentage of change |
|---|---|---|---|---|
| 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 Number of days | **2018 Number of days** | **Change in Number of days** | **Percentage of change** |
|---|---|---|---|---|
| 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<br>RMB'000 | **2018**<br>**RMB'000** | **Change**<br>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 properties segment of the Group during the year was not consolidated into its balance sheet at the end of the period of consolidated statements due to disposal, 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:

| | As of 31 December | | | |
|---|---|---|---|---|
| **Items** | 2017<br>RMB'000 | **2018**<br>**RMB'000** | **Change**<br>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 in 2018.

### 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 | – |
| Shaanxi Hartcourt Intermediation Information Technology Co., Ltd.[5] | **2018** | **–** | **–** | **–** | **–** |
| | 2017 | – | – | – | 666.60 |

| | 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 |
|---|---|---|---|---|---|
| **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 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 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:

| | As of 31 December | | | |
|---|---|---|---|---|
| **Items** | 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**<br>**Account holder** | **Banker** | **Account number** | Unit: HK$'000<br>**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:

| **Items** | **For the year ended 31 December 2018**<br>**Amount paid**<br>HK$'000 | **Percentage** |
|---|---|---|
| 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%** |

For the unutilized amounts in the proceed designated account, it will be continued to be used by the Company in accordance to the proportion and applications as disclosed in the H Shares prospectus of the Company. It is expected to be used up by the end of 2021.

The Company has confirmed that, the utilization of the aforesaid proceeds and the planned application of the remaining amounts are consistent with the use of proceeds as disclosed in the H Shares prospectus of the Company.

## (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, EUR 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, EUR 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 annual report, 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 RMB1,606,480 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 entered into the Western Europe market, becoming the largest Mi Homes (小米之家) operator in Spain with outstanding profit performance. In 2019, the Company will actively pursue 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.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Liu Donghai (劉東海)**, aged 52, joined the Company in June 2001 and has been the chairman of the Board since December 2013. Mr. Liu joined the Group in December 1997 and held various positions in the Group, including the vice chairman of the Board from July 2010 to December 2013, the general manager of the Company from March 2011 to December 2013 and the internal risk control officer of the Company from June 2001 to March 2011. He is primarily responsible for formulating the overall business strategies of the Company and overseeing the execution of the business strategies and the operation of the Company.

Prior to joining our Group, from April 1991 to March 1993, he served as the sales director of Beijing Hamamatsu Technology Co., Ltd. (北京濱松光子技術有限公司), which was set up as a company providing comprehensive services including research, development and provision of a variety of products for photonics field as a whole, mainly responsible for formulating sales policies, proposals and targets, and planning and overseeing the implementation of sales proposals. Mr. Liu has been the vice president of China Electronic Chamber of Commerce since December 2012 up to this date.

Mr. Liu obtained his master degree in Business Administration from China Europe International Business School (中歐國際工商學院) in September 2003.

**Mr. Liu Yajun (劉雅君)**, aged 61, joined the Company in August 2010 as an executive Director and has been elected as the vice chairman of the Board since March 2014, primarily responsible for formulating investment plans and leading investment negotiations of the Company. Prior to joining our Group, he held various positions, including a director and the vice president of Shenzhen Development Bank Tianjin Branch (深圳發展銀行天津分行), which provided various financial service with respect to corporate business, retailing business, inter-bank business, etc. from May 2003 to July 2008. He was mainly responsible for the credit business in the abovementioned bank.

Mr. Liu obtained his master degree in Economics from Chinese Academy of Social Sciences (中國社會科學院) in November 1991.

**Mr. Liu Songshan (劉松山)**, aged 45, joined the Company in May 2001 and was the chairman of the Board from November 2009 to December 2013. Mr. Liu joined the Group in February 1998 and held various positions in the Group, including an executive Director and the general manager of the Company from May 2001 to March 2011, an executive director of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from February 1998 to May 2009, and the general manager of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from May 2009 to October 2010. He is primarily responsible for formulating business operation strategies and investment plans of the Company, and leading annual procurement and sales planning of the Company.

Mr. Liu obtained his certificate for completing the course on practical innovative enterprises management from advanced training class of Peking University in May 2011.

**Ms. Liu Wencui (劉文萃)**, aged 44, is currently the vice president, joined the Group since February 1998 and has been an executive Director since June 2007 and the deputy director of the procurement center of the Company since April 2004. She is primarily responsible for organizing and implementing annual business and investment plans of our Group, implementing annual procurement plans of our Group and tracing delivery status of the procured products, establishing database for suppliers and facilitating communication with them, executing contracts on behalf of our Group within the authorization of the chairman of the Board as well as handling other matters under authorization of the chairman of the Board.

## Non-Executive Directors

**Mr. Qi Xiangdong (齊向東)**, aged 55, joined the Company in June 2015 and has been a non-executive Director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. Mr. Qi was a staff member/served as a deputy director of the Communication Technology Agency of Xinhua News Agency from September 1986 to August 2003; worked at Beijing Yahoo! Information and Technology Co., Ltd. (北京雅虎網信息技術有限公司) as the vice president for China region (and at 3721 Information Technology (Beijing) Co., Ltd. as the general manager) from August 2003 to August 2005; and served as chief executive officer of Qihoo 360 Company from August 2005 to July 2016. He has been the chairman of 360 Enterprise Security Group (360企業安全集團) from July 2016 and up to this date.

Mr. Qi received an executive master degree in Business Administration from Beijing University of Science and Technology in 2007.

**Ms. Xin Xin (辛昕)**, aged 42, joined the Company in June 2018 and has been a non-executive Director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. From April 2008 to December 2017, Ms. Xin Xin had served successively as deputy general manager in financial services department and deputy general manager of corporate development department of Digital China Holdings Limited; as secretary of the board of directors, chief financial officer and director of Digital China Information Services Company Limited; as vice president, chief financial officer and senior vice president of Digital China Holdings Limited. Ms. Xin Xin has served as financial controller of Digital China Group Co., Ltd. (000034.SZ) since December 2017 and has served concurrently as its director since January 2018 and up to this date.

Ms. Xin Xin graduated from Northeastern University with a bachelor's degree in management majoring in accounting in July 1997.

## Independent Non-Executive Directors

**Mr. Lv Tingjie (吕廷杰)**, aged 63, has been an independent non-executive Director since November 2009, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He has served as a professor, a doctoral tutor and the executive dean of School of Economics Management of Beijing University of Posts and Telecommunications (北京郵電大學) since May 1997, June 1999 and September 2007, respectively, the standing director of the International Telecommunication Society (國際電信協會) since June 2007, mainly responsible for coordinating the economic cooperation and academic exchanges in Asia and Greater China region, a member of the Telecommunications Experts Committee, Ministry of Industry and Information Technology (工業和信息化部電信專家委員會) since 2004, mainly responsible for policy consultation, examination and appraisal work, and the vice chairman of the Electronic Commerce Teaching Steering Committee, Ministry of Education (教育部電子商務教學指導委員會) since 2008, mainly responsible for revising education plans for e-commerce. Mr. Lv is currently an independent non-executive director of Gohigh Data Networks Technology Co., Ltd. (大唐高鴻數據網絡技術股份有限公司), which is listed on the Shenzhen Stock Exchange (Stock Code: 000851) and dedicates itself to the provision of telecommunications devices, business and overall solution with respect to industry informatization. Mr. Lv was conferred the teaching qualification certificate of senior high education by the PRC Ministry of Education in July 1997.

Mr. Lv obtained his engineering doctor degree in Systematic Engineering from Kyoto University (日本京都大學) in November 1997, his master degree in Management Engineering and his bachelor degree in radio engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in April 1985 and July 1982, respectively.

**Mr. Bian Yongzhuang (邊勇壯)**, aged 65, has been an independent non-executive Director since June 2015, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He served as director in Department of Price, Institute of Finance and Trade Economics of Chinese Academy of Social Science in 1991. From 1992, he began to engage in commercial activities and served successively as deputy general manager of Haitong Enterprise Co., Ltd., general manager of Wuxi Xinjiangnan Industrial Co., Ltd., deputy general manager of Hengtong Property Co., Ltd., deputy general manager and chairman of China Xinjiyuan Co., Ltd. and general manager of Dahua Domestic Investment Co., Ltd. Mr. Bian worked as chief financial officer and director at China Scholars Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 000547 (Minfufa A)) from June 2013. He also became a director at China Aerospace Investment Holdings Ltd. and Fujian Anjing Food Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 603345) from July 2013 and September 2017, respectively.

Mr. Bian received his doctorate degree in Economics from Graduate School of Chinese Academy of Social Sciences in 1990.

**Mr. Zhang Senquan (張森泉)**, formerly known as Zhang Min (張敏), aged 42, has been an independent non-executive Director since June 2018, mainly responsible for attending meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He received his bachelor's degree in economics from Fudan University in July 1999. He is a member of Hong Kong Institute of Certified Public Accountants, China Institute of Certified Public Accountants and American Institute of Certified Public Accountants, and has more than 10 years of experience in accounting and auditing. He worked at Ernst & Young, KPMG and Deloitte Touche Tohmatsu serving several positions from audit staff to audit partner from October 1999 to October 2012. Mr. Zhang Senquan currently is an independent non-executive director of Jiande International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 865) and an independent non-executive director of Natural Food International Holding Limited, a company listed on the Stock Exchange (stock code: 1837). Mr. Zhang Senquan was also an independent director of Topchoice Medical Investment Co. Inc., a company listed on the Shanghai Stock Exchange (stock code: 600763), from December 2014 to March 2017, an independent non-executive director of Casablanca Group Limited, a company listed on the Stock Exchange (stock code: 2223), from April 2015 to April 2018. Mr. Zhang Senquan also acted as the chief financial officer and joint company secretary of Huazhong In-Vehicle Holdings Company Limited, a company listed on the Stock Exchange (stock code: 6830), from May 2014 to July 2015. He served as head of the Strategic Development Department of Goodbaby International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1086), from March 2013 to April 2014. Currently, Mr. Zhang is the chief executive officer of Zhong Rui Capital (Hong Kong) Limited (中瑞資本(香港)有限公司), a consultancy company and also acts as the managing director of Southwest Securities International Securities Limited, a company listed on the Stock Exchange (stock code: 812) since February 2016.

## BOARD OF SUPERVISORS

The Board of Supervisors consists of three members, including an employee representative Supervisor. According to the Articles of Association of the Company (the "**Articles of Association**"), Supervisors are all elected by shareholders, except for the employee representative Supervisor. The Supervisors will serve for a term of three years, and are eligible for re-election upon expiry of their terms. The terms of reference of the Board of Supervisors include, but not limited to, reviewing and verifying the financial reports, business reports and profit distribution proposals prepared by the Board, and if in doubt, engaging certified public accountants and auditors to review the financial information of the Company; monitoring the financial activities of the Company; supervising the performance of the Directors and the senior management and monitoring whether they have violated the laws, regulations and the Articles of Association in performance of their duties; requiring the Directors and senior management to correct their behaviors which are harmful to the interests of the Company; exercising other powers granted to them by the Articles of Association.

The table below provides certain information in respect of the Supervisors.

| Name | Age | Position | Date of Appointment | Date of Joining the Group |
|---|---|---|---|---|
| Wei Shuhui (魏淑慧) | 55 | Chairwoman of Board of Supervisors and employee representative Supervisor | 6 June 2017 | May 1999 |
| Li Wanlin (李萬林) | 56 | Supervisor | 20 May 2014 | May 2014 |
| Hu Yuzhong (胡玉忠) | 60 | Supervisor | 20 May 2014 | May 2014 |

## SUPERVISORS

**Ms. Wei Shuhui (魏淑慧)**, aged 55, joined the Group in May 1999 and has been an employee representative Supervisor and chairwoman of Board of Supervisors since June 2017. She has also acted as head sales representative of various retail shops of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) since May 1999. Ms. Wei is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members.

Ms. Wei obtained her junior colleage degree from Business Management Cadre College (工商管理幹部學院) in 2005.

**Mr. Li Wanlin (李萬林)**, aged 56, joined the Group in May 2014 and has been a Supervisor since then. Before joining our Group, he served as a professor leading the major national mobile telecommunications laboratory at Southeast University (東南大學) from 2010 to 2012. Mr. Li also has served as general manager of Beijing EVERSINO Technology Ltd. (北京華恒銘聖科技發展有限責任公司) since 2007 and up to this date. From 1998 to 2007, Mr. Li held various positions within Siemens Ltd., China, including the senior vice president and the chief technology officer of the group. Mr. Li is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members.

Mr. Li obtained his Ph.D. degree in Information Science from Karlsruhe Institute of Technology in Germany in 1991.

**Mr. Hu Yuzhong (胡玉忠)**, aged 60, joined the Group in May 2014 and has been a Supervisor of the Company since then. Since 2003 and up to this date, Mr. Hu has served as chairman of the board of Beijing Times Hongxun Investment Company Limited (北京時代宏訊投資有限公司). From 1992 to 2002, he served as the executive vice president of China Post Putai Mobile Telecom Equipments Company Limited (中郵普泰移動通訊設備股份有限公司). Mr. Hu is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members.

Mr. Hu obtained his MBA degree in Asia International Open University (Macau) in 2004.

## SENIOR MANAGEMENT

The following table sets out certain information relating to our senior management members:

| Name | Age | Position | Date of Appointment | Date of Joining the Group |
|---|---|---|---|---|
| Du Guohui (杜國輝) | 40 | General manager | 13 July 2018 | June 2018 |
| Qi Feng (齊峰) | 49 | Vice general manager | 24 November 2009 | August 2003 |
| Zhou Qing (周清) | 50 | Vice general manager | 24 November 2009 | May 2002 |
| Huang Jianhui (黃建輝) | 58 | Vice general manager | 12 April 2011 | July 2010 |
| Su Fengjuan (蘇鳳娟) | 35 | Chief financial officer | 7 November 2016 | February 2009 |
| Li Dongmei (李冬梅) | 40 | Secretary to the Board and chief legal officer | 24 November 2009 | April 2006 |

**Mr. Du Guohui (杜國輝),** aged 40, graduated from Hebei University of Economics and Business with a major in International Trade in 2008. He attended the Marketing Strategy and Management programme in HKU School of Professional and Continuing Education's Institute for China Business from 2013 to 2015 as an on-job postgraduate student. Prior to joining the Company, Mr. Du Guohui held various positions in Shenzhen Aisidi Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002416) from November 2002 to May 2014, including general manager of Yunnan Branch, general manager of Jiangsu Branch, manager of product and sales department under China Unicom business department, director of customer operations center, etc. He also worked as general manager of channel marketing department in Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. from April 2015 to December 2015, and the retail account management department head of Honor business department (China region) in Huawei Device Co., Ltd. from June 2016 to June 2018.

Mr. Du studied management at the University of Hong Kong in June 2015 and obtained a postgraduate degree.

**Mr. Qi Feng (齊峰)**, aged 49, joined the Company in August 2003 and has been the vice general manger of the Company since November 2009. Mr. Qi joined the Group in August 2003 and has served various positions in the Group, including the assistant to general manager, vice general manager and general manager of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from August 2003 to present and the executive director of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) since May 2009. Mr. Qi is primarily responsible for researching and making development strategies, making and evaluating medium and long-term plans, participating in the research and formulation of strategic investment, capital operation, mergers and acquisitions, reorganizations and industrial integrations as well as the overall management of businesses of the companies within our Group located in Beijing.

Mr. Qi obtained his master degree in Business Administration from China Europe International Business School (中歐國際工商學院) on 3 September 2008.

**Mr. Zhou Qing (周清)**, aged 50, joined the Company in May 2002 and has been the vice general manager of the Company since November 2009. Mr. Zhou joined the Group in May 2002 and has served as the general manager of Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司) since May 2002. Mr. Zhou is primarily responsible for the operation and management of Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司).

Prior to joining our Group, he served as the head of the branch factory and the director of Energy Measurement Department of Gui Zhou Tyre Co., Ltd. (貴州輪胎股份有限公司) from October 1993 to January 1998, the principal business activity of which was tire manufacturing, responsible for team management, business development and safe production with an aim to realize the company's sales targets; and the general manager of Guizhou Fuhai Building Equipments Co., Ltd. (貴州富海樓宇設備有限公司) from March 2000 to March 2002, the principal business activity of which was the wholesale of mechanical and electronic equipments, responsible for team management, business development and safe production with an aim to realize the company's sales target. Mr. Zhou was certified as an engineer by Guiyang Personnel Bureau in September 1997.

Mr. Zhou obtained his master degree in Business Administration from China Europe International Business School (中歐國際工商學院) in September 2009.

**Mr. Huang Jianhui (黃建輝)**, aged 58, joined the Company in July 2010 and has been the vice general manager of the Company since April 2011. Mr. Huang is primarily responsible for formulating development strategies, making and evaluating medium and long-term plans, participating in the research and formulation of strategic investment, capital operation, mergers and acquisitions, reorganizations and industrial integration, as well as establishing cooperation relationship with China Unicom, China Telecom and China Mobile.

Prior to joining the Company, Mr. Huang held various positions, such as directors, in Zhengzhou Telecom Bureau of Henan Provincial Postal Administration, Survey & Design Institute of China Petroleum Bureau, Beijing branch of Samsung Electronics, Nokia (China) investment Co., Ltd., Siemens (China) Co., Ltd., and Nokia Siemens Networks Technology (Beijing) Co., Ltd.

Mr. Huang was qualified as a senior engineer conferred by China National Petroleum Corporation (中國石油天然氣集團公司) in December 1993. Mr. Huang obtained his bachelor of science degree in communication and computer from Beijing University of Posts and Telecommunications (北京郵電大學) in July 1983, and master degree in Business Administration from Guanghua School of Management of Peking University (北京大學) in July 2006.

**Ms. Su Fengjuan (蘇鳳娟)**, aged 35, joined the Company in February 2009, has served as ORACLE financial function consultant, head of financial management department, assistant to chief financial officer and trainee chief financial officer of the Company. She is currently the chief financial officer and vice president. Ms. Su Fengjuan is primarily responsible for accounting, establishment of internal budget system and internal control, coordination of financial resources and business operations, and formulation of the Company's management, profitability and investment plans.

Ms. Su obtained her master degree in Business Administration (accounting) from North China University of Technology (北方工業大學) in June 2009 and obtained Certificate for Passing the National Uniform CPA Examination of the PRC.

**Ms. Li Dongmei (李冬梅)**, aged 40, joined the Company in April 2006 and has served as the secretary to the Board and the chief legal officer since November 2009, and also one of the joint company secretaries since March 2014. Ms. Li is primarily responsible for preparing for the Board meetings and Shareholders' meetings, disclosing data of the Company in a complete, accurate and prompt manner, ensuring the Directors, Supervisors and senior management members to have complied with law, regulations and rules, providing legal opinions for the operation and management of the Company as well as participating in the drafting of contracts and negotiations for material contracts. In November 2016, she was appointed as vice president of the Company, and is responsible for the securities affairs, material investment and legal affairs.

Prior to joining our Group, she served as the legal manager of Enn Group Co., Ltd. (新奧集團股份有限公司) from September 2004 to April 2006. The principal business activities of this company were production, application and sales of clean energy. Ms. Li was responsible for the listing related work of CIMC Enric Holdings Limited, which is listed on the Stock Exchange (stock code: 03899) and formerly known as Enric Energy Equipment Holdings Limited, , a subsidiary of Enn Group Co., Ltd.

Ms. Li passed the PRC bar exam in October 2002 with her legal qualifications conferred by PRC Ministry of Justice. Ms. Li obtained her master degree in Law from University of International Business and Economics (對外經濟貿易大學) in June 2004.

# DIRECTORS' REPORT

The board of directors of the Company (the "**Board**") is pleased to present the Group's report together with the audited financial statements for the year ended 31 December 2018.

## CORPORATE INFORMATION AND GLOBAL OFFERING

The Company was converted from a then foreign-invested limited liability company into a foreign-invested joint stock limited liability company under PRC Company Law on 28 December 2009. The shares were listed on the Stock Exchange on 8 July 2014 (the "**Listing**" or the "**Listing Date**").

## PRINCIPAL ACTIVITIES

The principal activities of the Company are to engage in the sales of mobile telecommunications devices and accessories and the provision of related services. Analysis of the principal activities of the Group is set out in note 1 to the financial statements from page 120 to page 126.

## RESULTS

The results of the Group for the year ended 31 December 2018 are set out from page 115 to 116 of the financial statements.

## BUSINESS REVIEW

### Operating Results and Financial Positions

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% compared with 10,472,200 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.

For a detailed analysis on the Group's operating results and financial positions, please refer to the section headed "Management Discussion & Analysis" set out from page 11 to page 40 of this annual report.

## MAJOR RISK FACTORS AND UNCERTAINTY

### Risk of Failure to Renew the Leases for Our Leased Properties before the Expiry of the Leases and Increase in Rental

Most of the Group's stores are leased properties and the Group may face the risks of failure to renew the leases before the expiry of the leases or increase in rental, which may affect the overall operating performance of the Group.

Solution: On the one hand, we may build a long-term relationship with the lessors of the properties by word-of-mouth brand recognition and sound reputation. On the other hand, the Company keeps implementing its operation strategy of more visible presence in business districts, finding suitable shop premises to open new stores in various locations in a prime business district and at the same time identifying if there are any other suitable properties in surrounding areas so that we are able to find a replacement property in time in case of failure in renewal of the lease of a store or increase in rental to avoid affecting the overall operating performances of the Group.

### Risk for Overstocking Inventory

The Group is primarily engaged in retail and wholesale of communication devices. In order to ensure the Company's stable operation, it is necessary for us to maintain a certain level of product inventory. However, as the product life cycle becomes shorter, the Group also has to face a potential operating risk brought from inventory overstocking.

Solution: Our Procurement Department, Finance Department and Sales Department work together for our daily inventory management to maintain healthy inventory turnover days. The process begins from the reporting of their procurement plans by each of our subsidiaries. The Procurement Department at the headquarters will then combine those procurement plans and prepare a payment plan. The Finance Department will determine the priority for the procurement of various brand products based on their current inventory turnover days. Funds will first be allocated to the products with better inventory turnover days and the procurement volume for the products with poor inventory turnover days will be reduced. Meanwhile, Procurement Department and Sales Department will be notified to put more efforts on promoting the sales of such products. The risk of inventory overstocking will be mitigated through various measures such as promotional campaigns or return and exchange of goods.

### Risk of Liquidity

Although the inventory and trade receivable may help the Company maintain stable operation, they reduce part of the Company's daily working capital, which brings pressure on the Group's cash flow.

Solution: The Group has implemented a management system for the Group's capital pool since many years ago. The revenues of the Group's subsidiaries will be collected on real-time basis and the fund's flow is strictly controlled by the Group. In order to ensure the reasonable use of our funds, the Company issued corporate bonds in the principal of RMB600 million to replace part of current short-term loan for our liquidity in April 2017 in order to increase the efficient use of the cash flow used in our operating activities.

## FUTURE PROSPECT

For the Group's future development and business outlook, please refer to the section headed "Management Discussion & Analysis" set out on page 39 to page 40 in this annual report.

## EMPLOYEES, ENVIRONMENTAL POLICIES AND PERFORMANCE AND RELEVANT LAWS AND REGULATIONS

For the analysis on the Group's environmental policies and performances, its relationship with its employees, and relevant laws and regulations, please refer to the section headed "Environmental, Social and Governance Report" set out from page 83 to page 109 in this annual report.

## FINAL DIVIDENDS

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

During the year, the Company has adopted a dividend policy as follows:

1. Way of dividend distribution:

   The Company may use cash, shares or by both means to distribute dividend.

2. Currency dominated for dividend:

   Ordinary dividend shall be dominated and declared in RMB. Dividend of domestic shares shall be made in RMB. Dividend of overseas listed foreign shares or other distributions shall be made in the currency of the listing place of such foreign shares (in case of having more than one listing place, it will be made in the currency of the primary listing place determined by the Board). Dividend of non-listed foreign shares shall be made in HK$.

   For the dividend made in foreign currency, the applicable exchange rate would be the medium price of average RMB exchange rate with regard to foreign exchange reported by the People's Bank of China five trading days preceding the declaration of dividend and other distribution.

3. Ratification procedures for the dividend distribution plan:

   The dividend distribution plan of the Company is formulated by the Board and subject to the consideration and approval by the general meeting.

   After the Board's consideration of the financial position of the Company and in accordance with the relevant requirement of the laws and regulations, an ordinary resolution may be proposed by the Board at the general meeting to authorize the Board to distribute and pay dividend.

4. The Company pays dividends out of distributable profits, which are equal to the remaining amount of profit after tax after withdrawal of the below items by sequence:

   1) loss recovery;

   2) withdrawal of statutory reserve funds;

   3) any withdrawal of reserve funds after the approval by the general meeting.

5. The Board will review the dividend policy of the Company from time to time based on several factors below to determine whether to declare and pay dividend. Those factors include: operating results, cash flow, financial position, shareholders' interests, overall business conditions and strategies, capital requirement, cash dividend paid to the Company by the subsidiaries, and other factors as the Board may deem relevant.

## FINANCIAL SUMMARY

A summary of the Group’s results, assets and liabilities for the last five financial years are set out on page 8 of this annual report. This summary does not form part of the audited consolidated financial statements.

## USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing of the Company (after deducting underwriting commission and related expenses) amounted to approximately HK$840.22 million, which is intended to be used for the purposes as set forth in the Company’s prospectus dated 25 June 2014 (the “**Prospectus**”).

Details of the use of the proceeds from Listing during the year ended 31 December 2018 are set out in the section headed “Use of proceeds – Management Discussion & Analysis” in this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

### Major Customers

For the year 2018, the Company’s transaction volume with its five largest customers accounted for 13.69% of the Company’s operating revenue for the year ended 31 December 2018. The Company’s transaction volume with its single largest customer accounted for 4.35% of the Company’s operating revenue for the year 2018.

### Major Suppliers

For the year 2018, the Company’s transaction volume with its five largest suppliers accounted for 38.33% of the Company’s operating costs for the year ended 31 December 2018. The Company’s transaction volume with its single largest supplier accounted for 14.62% of the Company’s operating costs for the year 2018.

During this year, to the knowledge of the Directors, none of the Directors, Supervisors, any of their close associates or any shareholders of the Company (who to the knowledge of the Directors are interested in more than 5% of the Company’s shares) had any interest in the Company’s five largest suppliers or customers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year are set out in note 16 to the financial statements on pages 175 to 176.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 34 to the financial statements on page 194.

## RESERVES

Details of changes in the reserves of the Company and the Group for the year are set out in the consolidated statement of changes in equity on page 119 of this annual report.

## DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of the PRC Company Law, amounted to approximately RMB2,291,864,000 (as at 31 December 2017: approximately RMB1,996,853,000).

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2018 are set out in note 33 to the financial statements on pages 193 to 194.

## DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year ended 31 December 2018 and up to the date of this annual report are as follows:

### Executive Directors:

Mr. Liu Donghai *(Chairman)*
Mr. Liu Yajun
Mr. Liu Songshan
Ms. Liu Wencui

### Non-executive Directors:

Mr. Qi Xiangdong
Ms. Zhang Yunfei (resigned on 7 June 2018)
Ms. Xin Xin (appointed on 7 June 2018)

### Independent Non-executive Directors:

Mr. Lv Tingjie
Mr. Bian Yongzhuang
Mr. Vincent Man Choi, Li (resigned on 7 June 2018)
Mr. Zhang Senquan (appointed on 7 June 2018)

### Supervisors:

Ms. Wei Shuhui
Mr. Li Wanlin
Mr. Hu Yuzhong

Ms. Zhang Yunfei resigned from her position as non-executive Director due to personal development reason, and Ms. Xin Xin was appointed as non-executive Director, effective from 7 June 2018.

Mr. Vincent Man Choi, Li resigned from his position as independent non-executive Director due to personal development reason, and Mr. Zhang Senquan was appointed as independent non-executive Director, effective from 7 June 2018.

## BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management are set out on pages 41 to 47 of this annual report.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has made a confirmation on independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company considers all of the independent non-executive Directors to be independent during the year ended 31 December 2018 in accordance with Rule 3.13 of the Listing Rules.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The members of the third session of the Board, namely Mr. Liu Donghai, Mr. Liu Yajun, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Hua, Mr. Qi Xiangdong, Mr. Lv Tingjie, Mr. Bian Yongzhuang and Mr. Vincent Man Choi, Li entered into service agreements with the Company respectively on 6 June 2017 with a fixed term of three years effective from 6 June 2017 until the expiry of the third session of the Board of the Company. Ms. Xin Xin and Mr. Zhang Senquan were appointed respectively as a non-executive Director and an independent non-executive Director on 7 June 2018. They entered into service agreements with the Company respectively on 7 June 2018, effective from 7 June 2018 until the expiry of the third session of the Board. The service agreements entered into between the Company and each of the Directors are subject to renewal in accordance with the Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

The members of the third session of the Board of Supervisors of the Company, namely, Ms. Wei Shuhui, Mr. Li Wanlin and Mr. Hu Yuzhong, entered into service agreements with the Company respectively on 6 June 2017 with a fixed term of three years commencing from 6 June 2017 and ending at the expiry of the third session of the Board of Supervisors of the Company. The service agreements that the Company entered into with respective Supervisors are subject to renewal in accordance with the Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

Save as disclosed above, none of the Directors and Supervisors has a service contract with the Group which cannot be terminated by the Company within one year without the payment of compensation (other than statutory compensation).

## DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for the connected transaction as disclosed in the "Connected Transaction" of this annual report, during the year ended 31 December 2018, no other Directors, Supervisors or connected entities with such Directors or Supervisors directly or indirectly had any material interests in any material transactions, arrangements or contracts of significance in relation to the Company's business, to which the Company, its subsidiaries or fellow subsidiaries was a party.

## MANAGEMENT CONTRACTS

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

## EMOLUMENT POLICY

A remuneration and assessment committee was set up for formulating the Group's emolument policy and structure of the Directors and senior management, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

## REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors, Supervisors and five highest paid individuals are set out in notes 10 and 11 to the financial statements on pages 168 to 170.

## RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 8 to the financial statements on page 167.

## CHANGES TO INFORMATION IN RESPECT OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT MEMBERS

During the reporting period, Ms. Zhang Yunfei resigned from her position as executive Director and member of Remuneration and Assessment Committee due to personal development reason, effective from 7 June 2018. On the same day, Ms. Xin Xin was appointed as non-executive Director and member of Remuneration and Assessment Committee. For details, please refer to the Company's announcement dated 7 June 2018 and the circular dated 23 April 2018.

Mr. Vincent Man Choi, Li resigned from his position as independent non-executive Director, chairman of the Audit Committee and member of Remuneration and Assessment Committee due to personal development reason, effective from 7 June 2018. On the same day, Mr. Zhang Senquan was appointed as independent non-executive Director, chairman of the Audit Committee and member of Remuneration and Assessment Committee. For details, please refer to the Company's announcement dated 7 June 2018 and the circular dated 23 April 2018.

Mr. Jin Xin resigned from his position as general manager of the Company due to personal career development reason, effective from 13 July 2018. On the same day, Mr. Du Guohui was appointed as general manager of the Company. For details, please refer to the Company's announcement dated 13 July 2018.

Save as disclosed in this annual report, there was no change in any information relating to any Directors, Supervisors and the senior management members which were required to be disclosed in accordance with paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the reporting period.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors, Supervisors and chief executives of the Company (the "**Chief Executives**") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules are as follows:

| Name of Director | Type of shares | Nature of interests | Number of shares/ underlying shares held (long position/ short position/ lending pool) | Percentage of the relevant class of share capital (%) *(Note 1)* | Percentage of the total share capital (%) *(Note 1)* |
|---|---|---|---|---|---|
| Liu Donghai *(Note 2)* | Domestic shares | Interest of controlled corporation | 312,700,000 (long position) | 92.60 | 46.90 |
| Liu Songshan *(Note 2)* | Domestic shares | Interest of controlled corporation | 101,300,000 (long position) | 30.00 | 15.19 |
| Liu Wencui *(Notes 2&3)* | Domestic shares | Interest of controlled corporation | 320,200,000 (long position) | 94.82 | 48.03 |

*Notes:*

1. *The percentage is calculated with the number of the relevant class of shares of the Company issued as at date of this annual report divided by the total number of shares.*

2. *Beijing Di Er Tong Consulting Company Limited (北京迪爾通諮詢有限公司, "**Di Er Tong**") and Digital Science & Technology Group Limited (迪信通科技集團有限公司, "**Digital Science & Technology**"), directly hold 101,300,000 domestic shares and 211,400,000 domestic shares of the Company respectively, and Liu Donghai, Liu Hua, Liu Songshan, Liu Wencui and Liu Yongmei respectively hold 34.89%, 5.13%, 52.33%, 2.52% and 5.13% interests in Di Er Tong, and Liu Donghai, Liu Hua, Liu Wencui, Liu Yongmei and Liu Wenli respectively hold 84.72%, 5.06%, 3.93%, 5.06% and 1.23% interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Liu Donghai and Liu Wencui are deemed to be interested in 101,300,000 domestic shares and 211,400,000 domestic shares held by Di Er Tong and Digital Science & Technology respectively, and Liu Songshan is deemed to be interested in 101,300,000 domestic shares held by Di Er Tong.*

3. *Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司, "**Rong Feng Tai**") directly holds 7,500,000 domestic shares of the Company, and Liu Wencui holds 66.27% interests in Rong Feng Tai. Accordingly, pursuant to the SFO, Liu Wencui is deemed to be interested in 7,500,000 domestic shares held by Rong Feng Tai.*

Save as disclosed above, as of 31 December 2018, none of the Directors, Supervisors and Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR BONDS

Save as disclosed herein, at no time during the reporting period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire benefits by means of acquisition of any shares or debentures of the Company or any other body corporate, or were any rights to acquire the equity or debt securities of the Company or any other body corporate granted to any Director, Supervisor or their respective spouse or children under 18 years of age, or were any such rights exercised by them.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, to the knowledge of the Directors, the following persons (other than the Directors, the Supervisors and the Chief Executives) had interests or short positions in the shares and underlying shares of the Company which fell to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of Shareholder | Type of shares | Nature of interests | Number of shares/ underlying shares held (long position/ short position/ lending pool) | Percentage of the relevant class of share capital (%) *(Note 1)* | Percentage of the total share capital (%) *(Note 1)* |
|---|---|---|---|---|---|
| Liu Yongmei *(Note 2)* | Domestic shares | Interest of controlled corporation | 312,700,000 (long position) | 92.60 | 46.90 |
| Liu Hua *(Note 2)* | Domestic shares | Interest of controlled corporation | 312,700,000 (long position) | 92.60 | 46.90 |
| Liu Wenli *(Note 2)* | Domestic shares | Interest of controlled corporation | 211,400,000 (long position) | 62.60 | 31.71 |
| Di Er Tong *(Note 2)* | Domestic shares | Beneficial owner | 101,300,000 (long position) | 30.00 | 15.19 |
| Digital Science & Technology *(Note 2)* | Domestic shares | Beneficial owner | 211,400,000 (long position) | 62.60 | 31.71 |
| Lenovo Group Limited | H shares | Beneficial owner | 32,435,500 (long position) | 9.86 | 4.87 |
| Digital China Group Co., Ltd. ("**Digital China Group**") *(Note 3)* | H shares | Interest of controlled corporation | 158,350,000 (long position) | 48.14 | 23.75 |

| Name of Shareholder | Type of shares | Nature of interests | Number of shares/ underlying shares held (long position/ short position/ lending pool) | Percentage of the relevant class of share capital (%) *(Note 1)* | Percentage of the total share capital (%) *(Note 1)* |
|---|---|---|---|---|---|
| Digital China (China) Limited ("**Digital China China**") *(Note 3)* | H shares | Interest of controlled corporation | 158,350,000 (long position) | 48.14 | 23.75 |
| Digital China (HK) Limited ("**Digital China**") *(Note 3)* | H shares | Beneficial owner | 158,350,000 (long position) | 48.14 | 23.75 |
| Dawn Galaxy International Limited | H shares | Beneficial owner | 42,000,000 (long position) | 12.77 | 6.30 |

*Notes:*

1. *The percentage is calculated with the number of the relevant class of shares of the Company issued as at date of this annual report divided by the total number of shares.*

2. *Di Er Tong and Digital Science & Technology directly hold 101,300,000 domestic shares and 211,400,000 domestic shares of the Company respectively, and Liu Yongmei and Liu Hua hold controlling interests in both Di Er Tong and Digital Science & Technology, and Liu Wenli also holds controlling interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Liu Yongmei and Liu Hua are deemed to be interested in 101,300,000 domestic shares and 211,400,000 domestic shares held by Di Er Tong and Digital Science & Technology respectively, and Liu Wenli is deemed to be interested in 211,400,000 domestic shares in Digital Science & Technology.*

3. *Digital China directly holds 158,350,000 H shares of the Company, and Digital China Group holds 100% interests in Digital China through its wholly-owned subsidiary Digital China China. Accordingly, pursuant to SFO, Digital China Group and Digital China China are deemed to be interested in 158,350,000 H shares held by Digital China.*

Save as disclosed above, as of 31 December 2018, there was no other person (other than the Directors, the Supervisors and the Chief Executives) to the Directors' knowledge who had interests or short positions in the shares or underlying shares of the Company which fell to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or which have been recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## EQUITY-LINKED AGREEMENT

During the year ended 31 December 2018, the Company and its subsidiaries neither entered into any agreements in relation to equity-linked products nor participated in any arrangement to purchase equity-linked financial products.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

## PRE-EMPTIVE RIGHTS

During the year ended 31 December 2018, shareholders of the Company had no pre-emptive rights or any share option arrangements in accordance with applicable PRC laws and the Articles of Association.

## NON-COMPETITION UNDERTAKING

The controlling shareholders of the Company (Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui, and three investment holding companies namely, Digital Science & Technology, Di Er Tong and Rong Feng Tai) issued a non-competition undertaking on 4 March 2014 in favor of the Group (the "**Non-competition Undertaking**").

Pursuant to the Non-competition Undertaking, each of the controlling shareholders has irrevocably undertaken that, among others: it would not and will procure that its associates (except any members of the Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the core business of any member of the Group (the "**Restricted Business**") from time to time; if there is any new business opportunity in the Restricted Business, it shall within seven days refer such new business opportunity to the Group. Such business opportunity shall have first been offered or made handling available to us and be considered by our Board or its committees which do not have a material interest in the business opportunity. Each of the controlling shareholders shall not invest, participate, be engaged in and/or operate in such business opportunity unless the Board or its committees have declined in writing or failed to respond within six months after being notified of such opportunity; if it intends to transfer, sell, lease or license to a third party any business interests which compete, or may lead to competition, directly or indirectly, with the Restricted Business or its MVNO (as defined below) business, the Company shall have a pre-emptive right over these interests. The controlling shareholders must provide us written notice as soon as possible in advance of any sale as described above. The Company must reply within six months (or such other period as may be agreed between the parties) after receiving the selling notice, in order to exercise our right. The exercise of such rights by the Company shall be permitted by the relevant regulations, in particular, the regulations of the MIIT by then with respect to the MVNO business. If the Company intends to exercise the right, the terms will be determined at fair market value. The controlling shareholders (except for any members of the Group) shall not dispose such business and equity to any third party, unless the Board (including independent non-executive Directors) has refused in writing to purchase such business or equity, or the controlling shareholders has not received any notice about exercising the pre-emptive rights from the Group post to our receipt of the selling notice. In addition, any conditions of disposal offered by the controlling shareholders shall not be more favorable than those to be given to the Group; and to grant us the option to acquire any business that has been engaged by the controlling shareholders or any equity of such business based upon the above new business opportunity. The Company is entitled to request at any time to acquire any business that has been engaged by the controlling shareholders or any equity of such business under the above new business opportunity, and the controlling shareholders shall grant us the option for acquisition on the condition that the considerations of the acquisition are made in the ordinary course of business following negotiation between the parties under the fair and reasonable principle. The acquisition shall be based on the valuation conducted by independent valuer consisting of our independent non-executive Directors and also in the best interest of the Group. The controlling shareholders have granted us the option to acquire any business that has been engaged by them or any equity of such business based upon the above new business opportunity.

Please refer to the Prospectus of the Company for details of the above Non-competition Undertaking.

The Company has received from each of its controlling shareholders an annual written confirmation in respect of the compliance by them and their associates with the Non-competition Undertaking.

The independent non-executive Directors have reviewed and assessed if the controlling shareholders have complied with the Non-competition Undertaking. The independent non-executive Directors have confirmed that the controlling shareholders have not been in breach of the Non-competition Undertaking during the year ended 31 December 2018.

## DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the year of 2018, none of the Directors, Supervisors and their associates had any competing interest in any business which competes or may compete directly or indirectly with the businesses of the Company.

## CONNECTED TRANSACTION

The Group has the following continuing connected transaction during the year of 2018.

On 31 December 2018, Digital Science & Technology and the Company entered into the equity transfer agreement, pursuant to which, the Company agreed to dispose of and Digital Science & Technology agreed to purchase 70% of the equity interests in Shenzhen DIGITONE Investment Holdings Co., Limited (深圳迪信通投資控股有限公司, "**Shenzhen DIGITONE**") for a consideration of RMB35 million. The Company would realize investment gains from such disposal. All investment gains will be invested in channel building and product upgrade for better development of the principal business of the Company. The terms of the equity transfer agreement are on normal commercial terms.

As at the date of signing the equity transfer agreement, Digital Science & Technology directly holds 31.71% of the equity interests in the Company, and Digital Science & Technology is held as to 84.72%, 5.06%, 3.93%, 5.06% and 1.23% by Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli respectively. Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli are siblings, and Ms. Liu Wencui indirectly holds 1.12% of the equity interests in the Company through her non-wholly owned holding company Rong Feng Tai. Since Digital Science & Technology directly and indirectly holds 32.83% of the equity interests in the Company, it is a controlling shareholder as defined under the Listing Rules, and thus is a connected person of the Company. Therefore, the transaction contemplated under the equity transfer agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Pursuant to Chapter 14A of the Listing Rules, the highest applicable percentage ratio of the above-mentioned connected transaction is more than 0.1% but less than 5%, such transaction shall be subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement. Further details of such transaction are set out in the Company's announcement dated 31 December 2018.

## CONTINUING CONNECTED TRANSACTION

The Group has the following continuing connected transaction during the year of 2018:

Beijing Dixintong Telecommunications Services Co., Ltd. (北京迪信通通信服務有限公司) (the "**MVNO Licensee**" (MVNO means Mobile Virtual Network Operator) and a connected person of the Company) and the Company entered into a MVNO strategic cooperation agreement and a supplemental agreement on 20 March 2014 and 4 June 2014, respectively (collectively, the "**MVNO Strategic Cooperation Agreement**"). The term of the MVNO Strategic Cooperation Agreement is three years. Pursuant to the MVNO Strategic Cooperation Agreement, the MVNO Licensee and the Company (and each of our respective subsidiaries) will establish cooperative partnership to develop the MVNO market in the PRC regarding the retail channel, provision of telecommunications services as well as large-scale joint marketing activities and sales promotions.

Due to the fact that the MVNO Strategic Cooperation Agreement and its corresponding annual cap were expired on 31 December 2016, and that the Company intended to continue the transactions contemplated thereunder after 31 December 2016, the Company renewed the MVNO Strategic Cooperation Agreement with the MVNO Licensee on 10 November 2016 for a term of three years effective from 1 January 2017 to 31 December 2019 (the "**New MVNO Strategic Cooperation Agreement**"). The New MVNO Strategic Cooperation Agreement was entered into on normal commercial terms. The applicable percentage ratios under Chapter 14A of the Listing Rules for the transactions in the respective years were below 0.1%. Pursuant to Rule 14A.76(1)(a) of the Listing Rules, the above continuing connected transaction was not subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

During the year, the independent non-executive Directors of the Company have reviewed the aforesaid continuing connected transaction and confirmed that the transaction has been entered into:

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

(ii) on normal commercial terms or, from the perspective of the Group, on terms no less favorable than the terms available to or from independent third parties; and

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

The auditor of the Company has performed certain pre-determined audit procedures regarding the continuing connected transaction entered into by the Group during the year ended 31 December 2018 as set out above and stated that:

(1) the transaction has been approved by the Board;

(2) the transaction has been entered into in accordance with the relevant terms of agreements governing the transaction;

(3) the aggregate amounts of the transaction have not exceeded the relevant caps as disclosed in the Prospectus; and

(4) the transaction has been entered into in accordance with the pricing policies of the Group with reference to similar transactions with independent third parties.

The related party transactions as disclosed in note 41 to the financial statements of this annual report on pages 202 to 203 are constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and were in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, during the year ended 31 December 2018, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions for the disclosure of connected transactions under Chapter 14A of the Listing Rules.

## CHARITY DONATIONS

During the reporting period, the Group made charitable and other donations amounted to RMB20,000.

## SIGNIFICANT LEGAL PROCEEDINGS

As of 31 December 2018, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

## PERMITTED INDEMNITY PROVISION

The Company purchased an insurance covering the liability of the Directors and the senior management with a validity period of 12 months with effect from 31 March 2018, and was renewed in March 2019. Except for such insurance, the Company has no valid permitted indemnity provisions (as defined in Companies (Directors' Report) Regulation of the Chapter 622D of Hong Kong Laws) during the year ended 31 December 2018 and as of the date of this annual report.

## EVENTS AFTER THE FINANCIAL YEAR END DATE

The Company has no major events occurring after the financial year end date.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the Company's annual results for 2018 and the financial statements prepared in accordance with IFRSs for the year ended 31 December 2018.

## CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals, but due to Mr. Liu Donghai's background, qualifications and experience in the Company, he is considered the most suitable person to take both roles under the current circumstances. The Board is of the view that it is appropriate and in the best interests of the Company that Mr. Liu Donghai holds both positions at the current stage, as it helps to maintain the continuity of the policies and the stability and efficiency of the operations of the Company. The Board also meets regularly on a quarterly basis to review the operations of the Company led by Mr. Liu Donghai. Accordingly, the Board believes that this arrangement will not impact on the balance of power and authorizations between the Board and the management of the Company. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. Save as disclosed in this annual report, during the year ended 31 December 2018, the Company has complied with the other code provisions and adopted most of the other recommended best practices as set out in the CG Code.

## PUBLIC FLOAT

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

## AUDITOR

Ernst & Young was appointed as the auditor for the financial statements prepared in accordance with IFRSs for the year ended 31 December 2018. The accompanying financial statements prepared in accordance with IFRSs have been audited by Ernst & Young.

Ernst & Young shall retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming annual general meeting.

The Company's auditor has not been changed for the past three years.

By order of the Board
**Liu Donghai**
*Chairman*

Beijing, 28 March 2019

# BOARD OF SUPERVISORS' REPORT

During 2018, all members of the Board of Supervisors of the Company strictly complied with the relevant requirements of the Company Law, the Articles of Association, Rules of Procedures for the Board of Supervisors Meeting. They earnestly performed their duties in accordance with the principle of being accountable to shareholders and under the relevant laws and regulations. They fulfilled their duties actively and effectively and supervised the Company's legal compliance of its operations and the acts of Directors, managers and other senior management in performing their duties, which safeguarded the rights and interests of the Company and the shareholders and facilitated a continual and healthy growth of the Company.

## I. THE BUSINESS OF BOARD OF SUPERVISORS MEETING

1. On 28 March 2018, the Company held the third meeting of the third session of the Board of Supervisors in Beijing. The meeting was held by way of conference call, and all of three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Ms. Wei Shuhui, the chairwoman. Upon voting, the resolutions on "the Company's annual report for 2017 and the annual results announcement for 2017", "the Company's report of the Board of Supervisors for 2017", "the Company's financial statements for 2017" and "the Company's appointment of accounting firm for 2018" were approved.

2. On 29 August 2018, the Company held the fourth meeting of the third session of the Board of Supervisors in Beijing. The meeting was a physical meeting, and all of three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Ms. Wei Shuhui, the chairwoman. Upon voting, the resolution on "the Company's interim report and the interim results announcement for 2018" was approved.

## II. SUPERVISION WORK OF THE BOARD OF SUPERVISORS IN 2018

1. The members of the Board of Supervisors reviewed the Company's financial system and financial position, including regularly reviewing the Company's financial reports, financial budget and other documents such as vouchers, and maintaining communication with the external accountants and the internal audit department.

2. During the reporting period, the members of the Board of Supervisors of the Company ensured the legality and compliance of the procedures for consideration and discussion of the matters put to the Board meeting and regularly reviewed the operation of the Board and the Company, which had diligently performed its duties of supervision conferred at the general meeting.

3. The internal learning of the Supervisors was enhanced. More investigation and research and training were conducted to promote self-development. It kept abreast of the new requirement of the regulatory authority and enhanced learning and training so as to facilitate the self-development of the Board of Supervisors.

4. It actively and orderly conducted other supervisory works in an innovative way. It gave full play to the internal supervision of enterprises. The link with shareholders was strengthened and the rights and interests of the employees were safeguarded.

## III. OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS FOR THE YEAR 2018

### 1. The lawful operation of the Company

The Company carried out its business operation lawfully in 2018 with its process of making decisions complying with the requirements of relevant systems such as the Company Law and the Articles of Association. The Company has a sound internal control system and no business activities that violated the laws and regulations were discovered. The general meeting and Board meetings were convened and held in accordance with the required procedures set out in the laws, regulations and Articles of Association and thus such resolutions were lawful and effective. The member of the Board and senior management of the Company faithfully performed their duties in accordance with the relevant laws and administrative regulations of the state and relevant provisions of the Articles of Association. The Board fully implemented the resolutions passed at the general meeting and the senior management thoroughly enforced the resolutions of the Board. During the reporting period, no action in violation of laws and regulations or the Articles of Association, or to the prejudice of the interests of the Company and shareholders taken by the Directors and senior management of the Company in performance of their duties and exercise of power was found.

### 2. The Internal Control of the Company

During 2018, the Company's internal auditors imposed a tight control and audit in the view of legality, justifiability and effectiveness over the business operation, operation management, investment operation and matter procedures of the Company in accordance with the internal control system. "The Report on Internal Control for 2018" of the Company showed that internal control was effectively implemented throughout its operation. "The Internal Control Plan for 2019" issued by the Company set out specifically and in detail. The Board of Supervisors is of opinion that a comprehensive internal control management system would effectively safeguard the steady growth in operating efficiency and standardized operation.

### 3. The financial position of the Company

In 2018, the Board of Supervisors conducted quarterly or yearly examinations on a non-regular basis on the financial supervision system and financial position during the reporting period. The Board of Supervisors is of opinion that the Company has a healthy financial position and operation results and sound internal control system on financial and audit aspects, and no material omission or false statement was included in the accounting. The Board of Supervisors strictly implemented the laws and regulations, including the Accounting Law and the Accounting Standards for Business Enterprises, and no non-compliance incident was identified. During the reporting period, the Board of Supervisors examined and reviewed carefully and meticulously the accounting statements, financial system and other relevant materials of the Company. The accounting statements for the year of 2018 reflected the true view of the financial position and operating results of the Company. The Company has a sound financial system, standard financial operation and healthy financial position.

### 4. The connected transactions and capital raising of the Company

For details of the Company's connected transactions, please see the section "II. Financial Position and Operating Results – Management Discussion & Analysis" in the 2018 annual report.

For details of the Company's capital raising, please see the section "II. Financial Position and Operating Results – Management Discussion & Analysis" in the 2018 annual report.

The Board of Supervisors is of opinion that the connected transactions of the Company were carried out in compliance with relevant laws and regulations such as the Company Law, the Securities Law and the Articles of Association in 2018, which could positively affect the Company's operating results. The prices of those connected transactions were determined on the principles of equivalent consideration and fair market prices in order to ensure their fairness. No actions in violation of the principles of openness, fairness and justice or to the prejudice of the interests of the listed Company or the minority shareholders were found.

At the same time, the Board of Supervisors supervised the use of the proceeds raised by the Company. The Board of Supervisors is of opinion that the Company has carefully managed and used the proceeds and the Company did not change any planned investment projects.

### 5. The Board of Supervisors' opinion on acquisition and disposal of the assets by the Company

The Board of Supervisors examined the acquisition made by the Company and is of opinion that the transaction prices for the Company's acquisition of the equity and disposal of the assets were fair and reasonable, and no insider trading, prejudice to shareholders' interests or loss of assets of the Company was found. The decision-making process of the transaction was in compliance with the Articles of Association.

## IV. THE WORK PLAN OF THE BOARD OF SUPERVISORS FOR THE YEAR 2019

In 2019, the Board of Supervisors will tenaciously adhere to the strategies formulated by the Company based on its existing work nature. It will continue to strictly comply with the national laws and regulations and the duties conferred to the Board of Supervisors by the Articles of Association, dedicate to monitor the standardized operation of the Company, improve corporate governance structure and strengthen its supervision on major investment projects and significant operation decisions of the Company. It will continue to enhance the oversight of the implementation of the Company's procurement and sales plan for 2019, and reinforce the supervision on the reasonableness and regulation of the utilization of the proceeds for 2019.

The Board of Supervisors will continue to perform its duties strictly in accordance with relevant laws, regulations and policies of the State such as the Company Law, the Securities Law and the Articles of Association, and further promote standardized operation across the Company.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report in the annual report of the Company for the year ended 31 December 2018.

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code contained in Appendix 14 of the Listing Rules. Save for those disclosed in this annual report, the Directors are of the opinion that, during the year ended 31 December 2018, the Company has complied with the code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

## THE BOARD

### Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for the day-to-day management and operation of the Group to the senior management members of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the audit committee (the "**Audit Committee**"), the remuneration and assessment committee (the "**Remuneration and Assessment Committee**"), the nomination committee (the "**Nomination Committee**") and the strategy committee (the "**Strategy Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The primary authorities exercisable by the Board include: convening shareholders' meetings to report their work and carry out the resolutions approved thereat; determining the Company's business plans and investment proposals; developing annual financial budget plans, profit distribution plans and loss recovery plans; devising plans to increase or reduce the authorized capital of the Company and issue corporate bonds; putting forward plans for merger, spin-off and dissolution of the Company, determining the establishment of the Company's internal management; appointing or dismissing the Company's general manager and, according to the nomination of the general manager, appointing or dismissing the Company's deputy general managers and other senior management members, as well as determining their remunerations; establishing the Company's fundamental management system; and proposing amendments to the Articles of Association.

The Board is well-functioning, and the forms, contents, procedures and implementation of the meetings are in compliance with the Articles of Association and relevant laws and regulations. Specifically, the Board shall convene at least four regular meetings each year and other extraordinary meetings as and when necessary. The notice of a regular meeting shall be given to all Directors at least fourteen days prior to the date of the meeting to ensure their attendance. The notice of an extraordinary meeting shall be given to Directors within a reasonable time with sufficient information such as relevant background information of the matters in the agenda to be considered, as well as data and statistics of the Company's business development for their easier understanding. As adopted by the Board, two or more external Directors who consider the information insufficient or insubstantial may request the Board in writing to postpone the Board meeting or the consideration of the matters in the agenda.

The minutes of the Board meetings shall be complete and true. The attended Directors, the secretary to the Board and the minutes taker shall sign on the minutes which shall then be maintained by dedicated personnel as important evidence in clarifying the responsibilities of the Directors.

The Board may delegate certain authorities to the chairman during the recess of the Board, as defined and specified in the Articles of Association.

In the event that a Director has a connected relationship with an enterprise involved in a resolution considered in a Board meeting, he/she shall not exercise his/her voting right over the resolution, nor shall he/she exercise other Directors' voting rights on behalf of them. The Board meeting shall be held only when more than half of the unconnected Directors attend the meeting. The resolution of the Board meeting must be passed by more than half of the unconnected Directors. If there are less than three unconnected Directors attending the Board meeting, such matter shall be considered by the Shareholders at a general meeting.

The duties and responsibilities of the Company's management are primarily responsible for implementing the resolutions of the Board, the Company's business plans and investment plans, and the Company's key management systems, and supervising their implementation. They also manage the Company's revenues and expenditures and supervise the funds' flow and determine the changes in key positions.

The Company purchased an insurance policy covering the liability of the Directors and senior management with a valid period of 12 months effective from 31 March 2018 to 30 March 2019 in March 2018. In March 2019, the Company renewed the insurance with a valid period from 31 March 2019 to 30 March 2020.

## Board Composition

As at the date of this annual report, the Board comprises nine members, including four executive Directors, two non-executive Directors and three independent non-executive Directors as set out below:

*Executive Directors:*

Mr. Liu Donghai *(Chairman)*
Mr. Liu Yajun
Mr. Liu Songshan
Ms. Liu Wencui

*Non-executive Directors:*

Mr. Qi Xiangdong
Ms. Xin Xin

*Independent Non-executive Directors:*

Mr. Lv Tingjie
Mr. Bian Yongzhuang
Mr. Zhang Senquan

The biographies of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

As each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

Mr. Liu Donghai, Mr. Liu Songshan and Ms. Liu Wencui are siblings. Save as disclosed in the Directors' biographies set out in the section headed "Directors, Supervisors and Senior Management" in this annual report, none of the Directors has any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director.

All Directors, including the independent non-executive Directors, have brought a wide spectrum of invaluable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration and Assessment Committee, the Nomination Committee and the Strategy Committee.

As the code provision in the CG Code requires Directors to disclose the number and nature of offices held in listed companies or organizations and other significant commitments as well as their identities and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

## Board Diversity Policy

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. The Board diversity policy is summarized below:

## Policy Statement

The Company is of the view that the diversity of the Board is one of the essential factors in sustaining the competitive edge of the Company and facilitating the sustainable development of the Company. When determining the composition of the Board, the Company will consider Board diversity in terms of various factors, including but not limited to gender, age, cultural background, ethnicity and educational background, professional experience, knowledge and skills.

## Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and term of service. The ultimate decision will be made based on the merits and contribution that the selected candidates can bring to the Board.

## Monitoring and Reporting

The Nomination Committee will, with due regard for the benefits of diversity of the Board, review the structure, size and composition of the Board and make recommendations or advice to the Board on the appointment of new Directors of the Company. The above review and recommendations or advice all take the benefits of Board diversity into full consideration.

## Review of the Policy

The Nomination Committee will disclose the diversification of the Board's composition in the Corporate Governance Report of the Company annually and monitors the implementation of the Board diversity policy.

During the reporting period, the implementation of the Board diversity policy was as follows:

1. The Board consists of nine Directors and three independent non-executive Directors. The arrangement is in compliance with Rules 3.10(1) and 3.10A of the Listing Rules in relation to "at least one-third of the members of the Board shall be independent non–executive Directors".

2. At least one of the independent non-executive Directors has obtained financial professional qualifications. Other Directors have professional experience in law, finance, business management and public services, and also meet the requirements of Rule 3.10(2) of the Listing Rules.

3. The Directors have different educational backgrounds, including master's degree in law, bachelor's degree in accounting, doctorate in management, and doctorate in economics. Their ages range from 40 to 65 and 2 are female members.

The Nomination Committee has reviewed the board diversity policy to ensure its effectiveness and believes that the members of the Board has achieved diversity.

## Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide its Directors with updates on the latest development and changes of the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

During the year, the Directors attended the training activities as follows:

| Directors | Types of training |
|---|---|
| Zhang Senquan, Lv Tingjie and Bian Yongzhuang | A and B |
| Liu Donghai, Liu Songshan, Liu Yajun, Liu Wencui, Xin Xin, Qi Xiangdong | A |
| Zhang Senquan | C |

*Notes:*

*A:* *Training sessions relating to corporate governance, Directors' duties and other relevant matters of a listed company held by the Stock Exchange or other securities regulators.*

*B:* *Training sessions, seminars and conferences on special topics such as economics, finance or management.*

*C:* *Reading materials on the regulations relating to corporate governance, Directors' duties, internal control and risk management and attendance of seminars, forums or conferences.*

## Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals, but due to Mr. Liu Donghai's background, qualifications and experience in the Company, he is considered the most suitable person to take both roles under the current circumstances. The Board is of the view that it is appropriate and in the best interests of the Company that Mr. Liu Donghai holds both positions at the current stage, as it helps to maintain the continuity of the policies and the stability and efficiency of the operations of the Company. The Board also meets regularly on a quarterly basis to review the operations of the Company led by Mr. Liu Donghai. Accordingly, the Board believes that this arrangement will not impact on the balance of power and authorizations between the Board and the management of the Company. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

## Appointment and Re-Election of Directors

The members of the third session of the Board of the Company, namely Mr. Liu Donghai, Mr. Liu Yajun, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Hua, Mr. Qi Xiangdong, Mr. Lv Tingjie, Mr. Bian Yongzhuang and Mr. Vincent Man Choi, Li entered into service agreements with the Company respectively on 6 June 2017 with a fixed term of three years commencing from 6 June 2017 and ending at the expiry of the third session of the Board of the Company. Ms. Xin Xin and Mr. Zhang Senquan were appointed as non-executive Director and independent non-executive Director respectively on 7 June 2018. They entered into service agreements with the Company on 7 June 2018, commencing from 7 June 2018 and ending at the expiry of the third session of the Board. The service agreements entered into between the Company and each of the Directors are subject to renewal in accordance with the Company's Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

Save as disclosed above, none of the Directors has a service contract with the Group which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, the Company shall establish the Board of Directors which is accountable to the shareholders at general meetings. Directors shall be elected at the general meetings, with a term of office of three years. Upon expiry of their term of office, Directors are eligible for re-election. At the re-election of the Board, external Directors, being Directors who do not hold any positions in the Company, shall account for more than half of the total number of Directors. Where the number of vacancy of Directors is not more than the number specified by the Company Law or not less than two thirds of the number of Directors prescribed by the Articles of Association, the Board has the power to appoint any person as a Director to fill the causal vacancy, and any person to be appointed as a Director to fill a casual vacancy of the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors.

## Board Meetings

The Company will adopt the practice of holding Board meetings regularly. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend regular meetings and discuss matters in the agenda.

For other committee meetings, written notices of fourteen days will be given to all committee members. Such notices will set out the agenda and relevant Board papers to ensure that the committee members have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the Board meetings and committee meetings will record in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are/will be sent to each Director for comments within a reasonable time after the meeting is held.

During the reporting period, ten Board meetings and one general meetings were held and the attendance of each Director at these Board meetings in person and the general meetings is set out in the table below:

| Name of Director | Attended Board Meetings/ Eligible to Attend Board Meetings | Attended General Meetings/ Eligible to Attend General Meetings |
|---|---|---|
| Mr. Liu Donghai | 10/10 | 1/1 |
| Mr. Liu Yajun | 10/10 | 1/1 |
| Mr. Liu Songshan | 10/10 | 1/1 |
| Ms. Liu Wencui | 10/10 | 1/1 |
| Mr. Qi Xiangdong | 10/10 | 1/1 |
| Ms. Zhang Yunfei (resigned on 7 June 2018) | 4/4 | 1/1 |
| Ms. Xin Xin (appointed on 7 June 2018) | 6/6 | 1/1 |
| Mr. Lv Tingjie | 10/10 | 1/1 |
| Mr. Bian Yongzhuang | 10/10 | 1/1 |
| Mr. Vincent Man Choi, Li (resigned on 7 June 2018) | 4/4 | 1/1 |
| Mr. Zhang Senquan (appointed on 7 June 2018) | 6/6 | 1/1 |

A total of 44 Board's resolutions were passed at ten Board meetings held during the reporting period, details of which are as follows:

1. The sixth meeting of the third session of the Board for the year 2018 was held on 9 March 2018 at which four resolutions were considered and approved.

2. The seventh meeting of the third session of the Board for the year 2018 was held on 28 March 2018 at which nine resolutions were considered and approved.

3. The eighth meeting of the third session of the Board for the year 2018 was held on 12 April 2018 at which one resolution was considered and approved.

4. The third session of the provisional written Board meeting for the year 2018 was held on 31 May 2018, at which one resolution was considered and approved.

5. The ninth meeting of the third session of the Board for the year 2018 was held on 7 June 2018 at which seven resolutions were considered and approved.

6. The tenth meeting of the third session of the Board for the year 2018 was held on 13 July 2018 at which five resolutions were considered and approved.

7. The eleventh meeting of the third session of the Board for the year 2018 was held on 29 August 2018 at which seven resolutions were considered and approved.

8. The twelfth meeting of the third session of the Board for the year 2018 was held on 6 December 2018 at which seven resolutions were considered and approved.

9. The third session of the provisional written Board meeting for the year 2018 was held on 12 December 2018, at which one resolution was considered and approved.

10. The thirteenth meeting of the third session of the Board for the year 2018 was held on 29 December 2018 at which two resolutions were considered and approved.

## Shareholders' General Meeting

Details of the shareholders' general meetings of the Company held during the reporting period are as follows:

On 7 June 2018, the Company held the annual general meeting for the year 2017 in Beijing. Five shareholders or their proxies holding 496,050,500 shares of the Company, representing 74.41% of the total number of the shares of the Company, attended the meeting. The meeting was chaired by our Chairman, Mr. Liu Donghai. Certain Directors, Supervisors, senior management members also attended the meeting. Eight ordinary resolutions and one special resolution were approved by open voting at the meeting.

## Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' and Supervisors' securities transactions. Specific enquiries have been made to all Directors and Supervisors, and each of the Directors and Supervisors has confirmed that he/she has complied with the standard requirements set out in the Model Code during the reporting period.

During the year ended 31 December 2018, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standards set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

## Delegation by the Board

The Board reserves the decision for all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial data, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions to be entered into by the management.

## Corporate Governance Function

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

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the trainings and continuous professional developments of Directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

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

5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

# BOARD COMMITTEES

## Nomination Committee

The Nomination Committee currently comprises three members, including two independent non-executive Directors, namely Mr. Lv Tingjie (Chairman) and Mr. Bian Yongzhuang; and one executive Director, namely Mr. Liu Songshan.

The principal duties of the Nomination Committee of the Company include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; and to the largest extent possible to ensure membership diversity in the composition of the Board;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive officer; and

5. to review the Board diversity policy.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skills and ability to commit time and effort to carry out the duties. The recommendations of the Nomination Committee will then be submitted to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2018, the Nomination Committee has held three committee meetings and the attendance of each member of the Nomination Committee at the meetings in person is set out in the table below:

| Name of Director | Attended/ Eligible to attend |
|---|---|
| Mr. Lv Tingjie | 3/3 |
| Mr. Bian Yongzhuang | 3/3 |
| Mr. Liu Songshan | 3/3 |

Details of the aforesaid meetings are as follows:

At the second meeting of the Nomination Committee of the third session of the Board held on 28 March 2018, the resolution on “the nomination of Ms. Xin Xin as non-executive Director of the third session of the Board” was approved.

At the third meeting of the Nomination Committee of the third session of the Board held on 11 April 2018, the resolution on “the nomination of Mr. Zhang Senquan as independent non-executive Director of the third session of the Board” was approved.

At the fourth meeting of the Nomination Committee of the third session of the Board held on 6 December 2018, the resolution on “the work report of the Nomination Committee for 2018” was approved.

The Nomination Committee’s responsibilities are to study and formulate the criteria and procedures pertaining to selecting and recommending candidates, and to examine and verify candidates for directorship, and make advice or recommendations to the Board thereon. Also, to review the structure, size and composition (including the skills, knowledge, experience, gender, age, cultural and educational background, and the term of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy, and to the largest extent possible to ensure membership diversity in the constitution of the Board.

The Nomination Committee shall seek for the right candidates for the position of Directors in the Company itself, holding (joint stock) company of the Company and the talent market, and collect information about the candidates including their occupation, academic background, title, working experience in detail and all the part-time jobs to produce written materials. After obtaining consent of the nominees, the Nomination Committee shall convene its meeting, reviewing the candidates according to the qualification required by the Company. After the Nomination Committee forms a majority of votes, the Nomination Committee will conduct other follow-up work after decisions and feedback of the Board.

## Remuneration and Assessment Committee

The Remuneration and Assessment Committee comprises three members, namely Mr. Bian Yongzhuang (Chairman), Ms. Xin Xin and Mr. Zhang Senquan. Apart from Ms. Xin Xin who is a non-executive Director, both of the other members are independent non-executive Directors.

The principal duties of the Remuneration and Assessment Committee include the following:

1. to consult the chairman and/or chief executive officer about their remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy, and to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

3. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

7. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration and Assessment Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2018, the Remuneration and Assessment Committee has held two committee meeting and the attendance of each member of the Remuneration and Assessment Committee at the meeting is in person set out in the table below:

| **Name of Director** | **Attended/ Eligible to attend** |
|---|---|
| Mr. Bian Yongzhuang | 2/2 |
| Ms. Xin Xin (appointed on 7 June 2018) | 2/2 |
| Mr. Zhang Senquan (appointed on 7 June 2018) | 2/2 |
| Ms. Zhang Yunfei (resigned on 7 June 2018) | 0/0 |
| Mr. Vincent Man Choi, Li (resigned on 7 June 2018) | 0/0 |

Details of the meeting are as follows:

At the second meeting of the Remuneration and Assessment Committee of the Board for the year 2018 held on 7 June 2018, the resolution on "the remuneration proposals for the new non-executive Director and independent non-executive Director" was approved.

At the third meeting of the Remuneration and Assessment Committee of the Board for the year 2018 held on 6 December 2018, the resolution on "the work report of the Remuneration and Assessment Committee for 2018" was approved.

The Remuneration and Assessment Committee has reviewed the remuneration of Directors and senior management members for the year 2018, as well as the Company's policy and structure for the remuneration of all Directors and senior management. Based on the review, the Remuneration and Assessment Committee has made recommendations to the Board on the remuneration packages of individual executive Directors and senior management members.

## Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors and Supervisors for the year ended 31 December 2018 are set out in note 10 to the financial statements on pages 168 to 169 of this annual report.

The biographies of the senior management are disclosed in the section headed "Directors, Supervisors and Senior Management" in this annual report. The remuneration by band of non-Director members of the senior management for the year ended 31 December 2018 is as follows:

| Remuneration band (RMB) | Number of individuals |
|---|---|
| Below 300,000 | 5 |
| 300,000 to 500,000 | 1 |
| Over 500,000 | 1 |

## Audit Committee

The Audit Committee comprises three members, namely Mr. Zhang Senquan (Chairman), Mr. Lv Tingjie and Mr. Bian Yongzhuang, and all of them are independent non-executive Directors.

The principal duties of the Audit Committee are to review and supervise the financial reporting procedure of the Company, which include, among other things, the following:

1. to assist the Board in fulfilling its responsibilities by supervision of financial reporting and providing an independent review to the Board as to the effectiveness of the internal controls of the Group, and as to the adequacy of the external and internal audits;

2. to assure that appropriate accounting principles and reporting practices are followed;

3. to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the recognized independent auditor (the "**External Auditor**"), and to approve the remuneration and terms of engagement of the External Auditor, and any questions of its resignation or dismissal;

4. to serve as a focal point for communication between other Directors, the External Auditor and the internal auditor or any person responsible for internal audit function (the "**IA People**") as regards their duties relating to financial and other reporting, internal controls, external and the IA People and such other matters as the Board determines from time to time;

5. to review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

6. to audit the Company's financial information and its disclosure;

7. to develop and implement policy on engaging the External Auditor to provide non-audit services;

8. to monitor integrity of the Company's financial statements, annual reports and accounts and half-year reports (including Directors' Report, Chairman's Statement and Management Discussion & Analysis), and to review significant financial reporting judgments contained therein; and

9. to review, together with External Auditor and IA People, the Group's management as well as the adequacy of the Group's policies and procedures regarding internal control (including financial, operational and compliance controls); and to review and monitor the effectiveness of the Company's financial controls, internal control and risk management systems.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2018, the Audit Committee has held six committee meetings and the attendance of each member of the Audit Committee at the meetings in person is set out in the table below:

| Name of Director | Attended/ Eligible to attend |
|---|---|
| Mr. Zhang Senquan (appointed on 7 June 2018) | 5/5 |
| Mr. Lv Tingjie | 6/6 |
| Mr. Bian Yongzhuang | 6/6 |
| Mr. Vincent Man Choi, Li (resigned on 7 June 2018) | 1/1 |

Details of the meetings are as follows:

At the sixth meeting of the Audit Committee of the third session of the Board held on 28 March 2018, the resolutions on "the Company's annual report for the year 2017 and the annual results announcement for 2017", "the Company's audit result and communication report for 2017", "the Company's internal control report for 2017 and internal control plan for 2018" and "the Company's appointment of accounting firm for 2018" were approved.

At the seventh meeting of the Audit Committee of the third session of the Board held on 1 August 2018, the resolution on "interim review plan report for 2018" was approved.

At the eighth meeting of the Audit Committee of the third session of the Board held on 29 August 2018, the resolutions on "the Company's interim review result report and annual audit plan for 2018 issued by Ernst & Young" and "the Company's interim report and interim results announcement for 2018" were approved.

At the ninth meeting of the Audit Committee of the third session of the Board held on 12 November 2018, the resolutions on "relevant advisory services in relation to lease upon the adoption of IFRS 16", "appointment of Ernst & Young LLP (Singapore) as the auditor of New Idea Investment Pte Ltd" and "proposed appointment of firms of Ernst & Young across the nations to conduct statutory audit procedures for companies with foreign operation" were approved.

At the tenth meeting of the Audit Committee of the third session of the Board held on 14 December 2018, the resolution on "annual audit plan report for 2018" was approved.

At the eleventh meeting of the Audit Committee of the third session of the Board held on 29 December 2018, the resolution on "disposal of equity interests in Shenzhen Digitone Investment Holdings Co., Limited" was approved.

The Audit Committee has reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function), risk management systems and processes and the re-appointment of the External Auditor. The Board has not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of External Auditor.

The Audit Committee has also reviewed the annual results of the Company and its subsidiaries for this financial year as well as the audit report prepared by the External Auditor in relation to accounting issues and major findings in course of audit.

## Strategy Committee

The Strategy Committee currently comprises five members, including three executive Directors, namely Mr. Liu Donghai (Chairman), Mr. Liu Yajun and Mr. Liu Songshan; one independent non-executive Director, namely Mr. Lv Tingjie; and one non-executive Director, namely Mr. Qi Xiangdong.

The principal duties of the Strategy Committee include the following:

1. to monitor the risk of legal sanctions against us;

2. to conduct research and make proposals on the long-term development strategies and plans of the Company;

3. to conduct research and make proposals on the significant investment and financing plans which need to be approved by the Board in accordance with the Articles of Association;

4. to conduct research and make proposals on the significant projects of capital manipulation and assets operation which need to be approved by the Board of Directors in accordance with the Articles of Association;

5. to conduct research and make proposals on the significant matters which affect the development of the Company;

6. to monitor the implementation of the above-mentioned issues; and

7. other matters that the Board has authorized it to deal with.

During the year ended 31 December 2018, the Strategy Committee has held one committee meeting and the attendance of each member of the Strategy Committee at the meeting in person is set out in the table below:

| Name of Director | Attended/ Eligible to attend |
|---|---|
| Mr. Liu Donghai | 1/1 |
| Mr. Liu Yajun | 1/1 |
| Mr. Liu Songshan | 1/1 |
| Mr. Lv Tingjie | 1/1 |
| Mr. Qi Xiangdong | 1/1 |

Details of the meeting are as follows:

At the second meeting of the Strategy Committee of the third session of the Board held on 6 December 2018, the resolutions on "the Company's investment and establishment of project company and business development in the United Kingdom" and "the Company's investment of RMB6 million for establishing Guangzhou Zhongqi Communication Technology Co., Ltd. (廣州中啟通信科技有限公司)" were approved.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018, which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided the Board with such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 110 to 114 of this annual report.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board confirms its responsibility to ensure that the Company has established and maintained a sound risk management and internal control system within the Group and is responsible for reviewing its effectiveness. The system is designed to manage and reduce the risks associated with its business operation to an acceptable level, rather than to eliminate the risk of failure to meet its business objectives, and will only be able to provide reasonable, but not absolute, guarantee that no material misrepresentation, loss or fraud exists.

The Board has authorized the Audit Committee to monitor the Group's risk management and internal control system and to conduct an annual review of the effectiveness of the system. The review covers the monitoring on all major aspects, including financial monitoring, operational monitoring and compliance monitoring.

Under the Company's risk management and internal control system, the management is responsible for the design, implementation and maintenance of the risk management and internal control system to ensure that, in particular, (i) proper policies and procedures have been designed and established to safeguard the assets of the Group from not being misappropriated or improperly disposed of; (ii) relevant laws, rules or regulations have been observed and complied with; and (iii) reliable financial and accounting records are maintained in accordance with relevant audit standards and regulatory reporting requirements.

The Company's risk management and internal control system has the following key features: (i) the responsible persons of the key operation units or departments to manage and reduce the identified risks in accordance with the internal guidelines approved by the Board and the Audit Committee; (ii) the responsibility of the management to ensure that proper measures have been taken to address material risks arising from the Group's business and operation; and (iii) provision of independent confirmation from the IA People to the Board, the Audit Committee and the management on the effectiveness of the risk management and internal control system.

The key tasks under the Company's risk management and internal control system for the reporting period are as follows:

- Each key operating unit or department is responsible for day-to-day risk management activities, including identifying significant risks that may affect the performance of the Group; assessing and evaluating the identified significant risks based on its impact and possibility of occurrence; planning and implementing certain measures and control, and contingency plans to manage and mitigate such risks;

- The management and the finance department monitor and review the risk management and internal control system on an on-going basis and report to the Audit Committee on the operation of the system;

- The management regularly follows up and reviews the measures, monitoring, and the contingency plans for the identified significant risks to ensure that adequate attention, control and response are in place for the identified significant risks;

- The management regularly reviews the risk management and internal control system to detect if there are any defects in the program and the monitoring, and will design and implement remedy actions to address such defects;

- The management has to ensure the normal operation of the appropriate program and measures, such as preventing of the assets from being misappropriated or disposed of without authorization, controlling the capital expenditures, maintaining proper accounting records, and ensuring the reliability of the financial data used in the business operation and publication.

The Company's internal audit function plays a role in monitoring the internal governance of the Company and the provision of independent confirmation on the adequacy and effectiveness of the Company's risk management and internal control system. The senior executives in charge of internal audit functions report directly to the Audit Committee and submit an internal audit report to the Audit Committee in accordance with the audit plan agreed by the Board. The results on the internal audit have to be reported to all Directors. During the reporting period, the internal audit function has analyzed and evaluated the adequacy and effectiveness of the Company's risk management and internal control system, in particular the inspection of the documents related to risks prepared by the operating units and the management, and conducted face to face interviews with the staff at various level. The senior executives in charge of the internal audit function attended the meetings of the Audit Committee and explained the results of the internal audit and answered the questions raised by the Audit Committee.

The Company has formulated a policy to ensure that the inside information is disclosed to the public in a fair and timely manner in accordance with applicable laws and regulations. The senior executives appointed by the Group for performance of investor relations, corporate affairs and financial control functions are responsible for controlling and monitoring that proper procedures for disclosure of inside information are followed. Relevant senior executives may access to the inside information at any time based on the "as needed" basis. The relevant personnel and other professionals involved will be reminded of keeping the inside information confidential until it is disclosed to the public. The Company has in place other procedures to avoid the possibility of erroneous handling of inside information in the Group, such as prior approval for trading of the Company's securities by the Directors and the management members, notices of the fixed lock-up period, restrictions on securities transactions by the Directors and the employees, as well as codes for identification of projects.

The Company has accepted relevant arrangements to assist the employees and other stakeholders in raising their concerns in confidence on the possible irregularities in financial reporting, internal control or other aspects. The Audit Committee reviews such arrangements on a regular basis and ensures that appropriate arrangements are in place for carrying out a fair and independent investigation and taking appropriate action on such matters.

During the reporting period, the Audit Committee reviewed the effectiveness of the Company's risk management and internal control system. The annual review covered the following aspects: (i) reviewing the reports submitted from time to time by the operating units or departments and the management on the implementation of risk management and internal control system; (ii) discussing on a regular basis with the senior executives at management level the effectiveness of the risk management and internal control and the work of the internal audit function; (iii) assessing the scopes and quality of the work done by the management for ongoing monitoring the risk management and internal control system; (iv) reviewing the effectiveness of the internal audit function to ensure the smooth cooperation between the internal units within the Group and between the internal units and the external auditors, and also ensure that the internal audit function is allocated sufficient resources for operation within the Group and has appropriate status; and (v) making recommendation to the Board the scopes and quality of the work done by the management for ongoing monitoring the risk management and internal control system.

Based on the disclosure above, the Audit Committee has not identified any significant issues that adversely affect the effectiveness and adequacy of the Company's risk management and internal control system.

## AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the Company engaged Ernst & Young to provide audit-related services and Ernst & Young did not provide any non-audit services. The total remuneration paid or payable to Ernst & Young and other auditors of subsidiaries for statutory audit by the Company for audit-related services amounted to RMB4,645,000 in 2018.

## JOINT COMPANY SECRETARIES

Ms. Li Dongmei ("**Ms. Li**"), one of the joint company secretaries of the Company, is responsible for advising the Board on corporate governance matters and ensuring compliance with the Board policies and procedures, and the applicable laws, rules and regulations. Meanwhile, in order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company continues to engage Ms. Lam Yuk Ling ("**Ms. Lam**"), manager of TMF Hong Kong Limited (a company secretarial service provider), as another joint company secretary of the Company to assist Ms. Li to discharge her duties as company secretary of the Company. Ms. Li is the primary contact person of Ms. Lam at the Company.

Ms. Li and Ms. Lam have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2018.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and promoting their understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of its information, which will enable shareholders and investors to make informed investment decisions.

The annual general meeting of the Company provides an opportunity for shareholders to communicate directly with the Directors. The Company's chairman and the chairman of each Board committee of the Company will attend the annual general meeting to answer enquiries from shareholders. The External Auditor will also attend the annual general meeting to answer questions about the conduct of audit, the preparation and contents of the auditor's report, the accounting policies and auditor's independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and the Company maintains a website at www.dixintong.com, where up-to-date information on the Company's business operation and development, financial data, corporate governance practices and other information are available for public access.

## SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

### Convening of Extraordinary General Meetings and Putting Forward Proposals

In accordance with the Articles of Association, an extraordinary general meeting shall be convened on the requisition of shareholder(s) who individually or jointly hold(s) ten percent or more of the Company's issued and outstanding voting shares.

Such requisition shall be made in writing to the Board or the joint company secretaries for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

When the Company is to convene an annual general meeting, shareholder(s) who individually or jointly hold(s) three percent or more of the Company's shares carrying voting rights shall have the right to put forward new proposals in writing to the Company. The Company shall include matters falling within the scope of responsibilities of the general meeting into the agenda of such meeting.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Shareholders who intend to put forward their enquiries about the Company to the Board could mail their enquiries to the principal place of business of the Company in Hong Kong or e-mail their enquiries to the company secretary at her email address: Fran.Lam@tmf-group.com.

## CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no material change to the Articles of Association during the year ended 31 December 2018.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board is pleased to present the Environmental, Social and Governance Report of the Company for the year ended 31 December 2018. The preparation of this report is in compliance with the relevant requirements under Environmental, Social and Governance Reporting Guidelines set out in Appendix 27 to the Listing Rules of the Stock Exchange. Unless indicated otherwise, the coverage of this report is consistent with that of the annual report. This report shall be read in conjunction with the 2018 Annual Report of Beijing Digital Telecom Co., Ltd..

## 1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE SYSTEM

The Group is committed to achieving a high level of performance on environmental, social and governance issues in order to protect the interests of the shareholders, increase corporate value and fulfill our social responsibilities.

### 1.1 Core philosophy and management framework

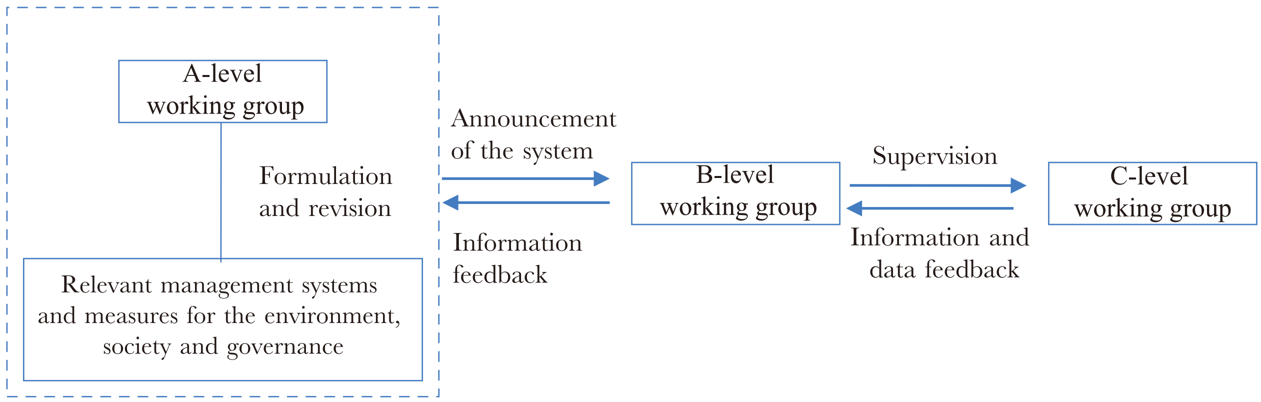
The core philosophy of the Company on environment, society and governance focuses on shouldering our environmental and social responsibility in the course of the enterprise's development. We actively identify and strictly abide by applicable national and local laws and regulations. We engrave the concept of green development into our operation and management and see this concept as the foundation of the healthy growth of the Company. The Group follows the motto of "Satisfaction to the customers and the staff" under which we place emphasis on the duty of care for our products and services, to serve with heart and protect Consumers' rights. We also actively communicate with the stakeholders in order to improve our performance on corporate governance, take the initiative to understand the needs of the community and advocate and practice the spirit of charity and dedication. With regard to our employees, we place emphasis on taking care of their needs, protecting their legal rights and interests, caring for their health and safety and supporting their growth and development.

The Group has set up a multi-level and cross-departmental environmental, social and governance working group covering all of its subsidiaries, which is responsible for the coordination and fulfilment of environmental, social and governance work to effectively ensure the implementation and improvement of related policies and systems on environmental, social and governance issues of the Company. The system includes A/B/C-level working groups as follows:

- A-level working group: the A-level working group is responsible for formulating relevant management systems and specific measures on environmental, social and governance issues, evaluating the results of the implementation, processing data and improving or updating the system, and reporting their work to the Board or its committees. The A-level working group was formed by the managers of our five major centers in the headquarter, namely human resource center, operation center, procurement center, legal affairs center and financial center. Among which, the manager of the human resource center is responsible for the management of labors, the managers of operation, procurement and legal affairs centers are responsible for the management of the supply chain, products and environmental resources, the human resource center and financial center are responsible for the management of community investment.

- B-level working group: the B-level working group is responsible for supervising the work of C-level working group and collecting relevant data. B-level working group was formed by 24 general managers of different regional subsidiaries.

- C-level working group: the C-level working group is responsible for the implementation of relevant work and each general manager designates 1-3 responsible persons to form a C-level working group for each subsidiary.



## 1.2 The involvement of stakeholders

We are fully aware that the sustainability of Beijing Digital is closely linked to the opinions and needs of the stakeholders. We actively communicate with our stakeholders through various means of communication to keep abreast of and respond promptly to the needs of stakeholders. At the same time, we take the expectations of the stakeholders as an important factor for consideration during the course of business development.

Based on the characteristics of our business, our key stakeholders include the shareholders, suppliers, consumers, communities, employees, the government and regulators. For the year ended 31 December 2018, based on our communication with the stakeholders, we have identified the following environmental, social and governance issues that the stakeholders concern about:

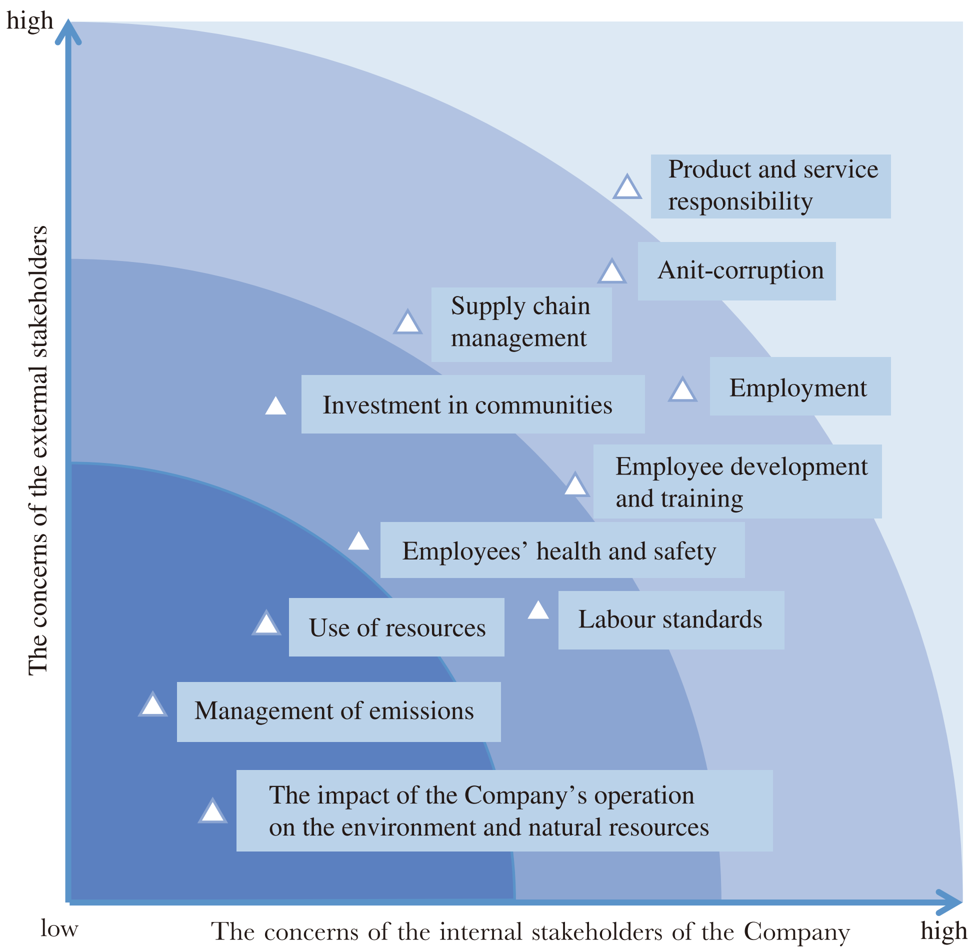
| Key stakeholders | Descriptions of the stakeholders | Major means of communication | Main Concerned Aspects |
|---|---|---|---|
| Shareholders | Incorporated bodies which make investment in the Company and hold a certain percentage of the shares of the Company | Shareholders' general meetings, annual and interim reports, results announcements, corporate announcements, relevant meetings | Product and service responsibility, employee development and training, employment, anti-corruption |
| Suppliers | Enterprises or their branches which directly supply mobile handsets and accessories and provide related services to the Company | Suppliers management system, relevant meetings, strategic cooperation negotiation | Supply chain management, product and service responsibility, anti-corruption |
| Consumers | Members of the general public who purchase or use the products or receive services from the Company or retail stores for personal purposes | Surveys on consumer satisfaction, feedback from the consumers, daily operation/communications, complaint and response mechanism | Product and service responsibility, investment in communities, environment and natural resources |
| Communities | A network of social relations and social groups consisting of the people who live in an area to engage in a variety of social activities | Community activities, charity activities, supporting projects for community issues, daily operation, questionnaires | Emissions, use of resources, environment and natural resources, labor standards, anti-corruption |
| Staff | Employees employed under different types of employment contracts, including permanent workers, contracted workers, temporary workers and interns | Survey on staff's suggestions, staff internal meetings, corporate internal notices, feedback system for the staff, trade union | Employment, employee development and training, employees' health and safety, anti-corruption |
| Government and regulators | Government bodies or regulators who regulate the operation of the Company | Information disclosure, receipt or submission of documents, on-site visits, relevant meetings | Anti-corruption, product and service responsibility, employment, labor standards |

## 1.3 Identification and analysis on key environmental, social and governance issues

Based on our stakeholders' suggestions and the characteristics of business development of the Group, we have identified and selected issues that are relatively important to the Group at this stage and used them as important factors for report preparation and information disclosure. The main work procedures and contents are as follows:

| Main procedures | Work content |
|---|---|
| Identify environmental, social and governance issues related to the Group's business | Based on the current business characteristics of the Group and the future business development direction, the Group identifies major relevant environmental, social and governance issues. |
| Analysis of major key stakeholder issues | Identifies key stakeholders of the Group based on daily business development and value chain of the Group's business, and conducts important issues analysis based on communication with various stakeholders in the operation process. |
| Identify major environmental, social and governance issues | Identifies major environmental, social and governance issues of the Group based on stakeholder analysis and further improves this report. |

Based on the analysis and identification of major environmental, social and governance issues, the most important issues for the company at this stage are product and service responsibility, anti-corruption and employment. The second most important issues are employee development and training, supply chain management, labor standards, employees' health and safety and investment in communities. The relatively least important issues are the impact of the company's operations on the environment and natural resources, management of emissions and the use of resources.



## 2. PRODUCT AND SERVICE RESPONSIBILITY

As a retail enterprise, the quality of the products we sell and the services we provide to our customers are the foundation of our business. At all times, the Group has strictly complied with the provisions for the protection of the consumers' interests and privacy, assurance of product and service quality and advertising management under relevant national and local laws and regulations such as *the Law of the People's Republic of China on Protection of Consumer Rights and Interests*, *the Product Quality Law of the People's Republic of China*, *the Advertising Law of the People's Republic of China*, *the Trademark Law of the People's Republic of China*, *the Patent Law of the People's Republic of China*, *the Copyright Law of the People's Republic of China* and *the Anti-Unfair Competition Law of the People's Republic of China*, and has formulated management systems and regulatory mechanisms related to sales of products and services based on the requirements under the laws, regulations and industry standards, so as to comprehensively monitor the quality of our products and services.

### 2.1 Product quality and safety assurance

The Group always places importance on offering quality and safe products to the customers. In view of the business characteristics of the Group, we guarantee the quality, health and safety of products that consumers purchase from the Group's sale channels are in line with national standards by strictly managing the qualifications of mobile handset suppliers and signing contract terms with them for product quality assurance. When it is found and ascertained that a product has severe safety concerns or poses a major threat to consumers' health, the Group would cooperate with the product manufacturer to take timely measures to remove the product and recall the product to avoid potential harm to consumers.

In order to enable customers to enjoy the highest quality products and services, the Group has consistently implemented high standard guarantee system for returns and exchanges of goods and high standard service pledge, under which:

- All customers are free to return or exchange the merchandise they purchased for any reason, within seven days upon the purchase. Any customer who purchases a mobile handset from the Group's sales channel is entitled to return or exchange the handset without examination within seven days upon the purchase if the damage is not caused by man-made factor and the requirements are met.

- If a customer has to return to our outlet for a remedy owing to the quality issues of our products, the Group shall assume full responsibility and do its best to solve the problems, and in addition, offer a compensatory transportation expense of RMB30 to that customer.

- The Company encourages customers to voice their complaints if they are not satisfied with our services by offering a reward of RMB300 to those customers whose complaints are proved to be valid.

During the year, in order to further standardize the returns and exchanges service mechanism, the Group has revised the "Policy for return and exchange without any reason within 7 days" (《7天無理由退換機細則》). From 22 October 2018, if a customer meets the requirements but the store refuses to enforce the policy, once be verified, the corresponding subsidiary will be penalized and internal reporting will be carried out.

## 2.2 To serve with heart

The Group is always on a search to provide unique services to the consumers. We uphold our philosophy of creating values to the customers with hearts and launched the "Full-hearted Loyalty" program, shaping our core value of services, "A kind heart brings goodness". Each customer may enjoy various free services in our Beijing Digital's outlet, such as free power-charging for electronic products, free handset screen protectors, free Wi-Fi internet access, free cold and hot beverages, free software management and free home delivery service.

Meanwhile, with regard to the shopping environment, the Group is also actively providing consumers with a safe and comfortable shopping environment. The Group has formulated *the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd.* which sets out strict requirements on safety and environmental protection for the fitting and decoration materials so as to ensure the compliance with the applicable national specifications and prevent from harming the consumers' health.

To date, the "Full-hearted Loyalty" services have been implemented for three years. Regardless of whether it is the management of our subsidiaries or our front-line staff, there has been an improvement in their service awareness and service standards. The overall service level of the Group is rising steadily. During the year, we continued to train and organize daily meetings to constantly strengthen our employees' and management's recognition on our dedication and mission of the "Full-hearted Loyalty" services and enhance the service level of our stores.

Our shop assistant offered beverage to customers

Our shop assistant offered to hold the child for the customer on their own initiative, so that the customer can select a mobile handset of their choice at ease.

A senior customer was very satisfied with the service from all the staff members of the store and personally wrote a Chinese calligraphy to express his gratitude.

The Group has made proactive efforts to understand the needs of our customers through conducting on-going customer satisfaction surveys by phone and other means. Based on the customers' feedbacks each month, the Group will score the services of our stores and identify the major problems in our services to continuously improve our overall services.

In addition, the Group is also actively exploring other channels to help meet customers' needs. For example, in response to the increasing demand for smart homes in the market, the Company carried out a more in-depth strategic cooperation with Shenzhen ORVIBO Electronics Co., Ltd in 2018, and fully entered into the smart home industry in order to provide customers with more professional smart home services. The employees of the Group are therefore actively involved in the training of Orvibo's product distribution and installation and obtained the OCTS technical service certification.

## 2.3 Listening to consumers' demand

The Group listens to the voice of each customer with "heart" and positively responds to consumers' demands and constantly improves the quality of our services. We continue to deepen the management of online and offline complaints, communication channels and platforms, which includes our customer service hotline, other online customer service platforms such as Weibo, WeChat and Baidu Tieba, and offline channels such as customer's personal visit. Through the summary of the public platform on online customer service in the previous year, the Group has strengthened its management of Baidu Tieba during the year. In addition to customers' complaints, we have also actively responded to relevant issues raised by our customers.

The Group will record, forward, handle, make advice and suggestion on the complaints received from each channel and platform. Each month, the Group will classify and file those complaints to provide reference for our follow-up service, and contact the customers for satisfactory surveys for our complaint handling at the end of the month.

During the year, the Group continued to deepen the "implementation of the Regulations on Complaint Management" and the "New 400-week Improvement Rules and Feedback for Complaint", and continuously promoted the improvement of service quality. A customer service representative should contact the complaining customer to obtain more details on the complaint within 2 hours upon receipt of the complaint, do his/her best to reach an agreement with the complaining customer on the same day, and report the results to the call center at the headquarter of the Group within 72 hours. A subsidiary shall submit a Report on Complaint Handling to the call center at the beginning of each month. The headquarter of the Group will contact the customer again within 24 hours upon receipt of the report to check whether the complaint was handled by the subsidiary in accordance with established procedures and ask the customer whether he/she agrees on or satisfies with the results. In addition, we incorporated the handling of customer complaints into the performance assessment of subsidiaries to promote the implementation of relevant regulations.

## 2.4 Protection of intellectual property rights

The Group has put its best efforts on building and enhancing its brand values and kept strengthening its protection of intellectual property rights. The Group strictly complies with the laws, administrative regulations and departmental rules relating to the protection of intellectual property rights, including *the Trademark Law of the People's Republic of China, the Administrative Measures for Intellectual Property Certification, Enterprise Intellectual Property Management*, and formulated *the Beijing Digital Measures for the Administration of Intellectual Property Rights* to protect our intellectual property rights. Meanwhile, the Group also strictly regulates and centralizes the management of the use of promotional copies and various corporate logos (including the trademarks) for our major marketing campaigns to avoid the infringement of other parties' intellectual property rights. In order to strengthen the legal awareness of the Group's front-line staff on intellectual property rights and prevent the potential risk of infringing other parties' intellectual property rights, the legal affairs department of the Group held a training meeting on intellectual property rights for our front-line staff and various departments this year.

| Indicator | 2018 |
|---|---|
| Copyrights (number) | 25 |

## 2.5 Advertising and management of logos

With regard to advertising and management of logos, the Group strictly complies with relevant laws and regulations such as *the Advertising Law of the People's Republic of China* and *the Trademark Law of the People's Republic of China*. During the year, the Group continued to identify the risks of potential breach of the laws in our previous advertising campaigns based on the specific provisions under relevant laws and regulations, and facilitate different departments at the Group's headquarters to understand the Advertising Law.

The legal affairs department of the Group's headquarter is responsible for carrying out specific training seminars on the rights of trademarks for brand management department under the headquarters or carrying out small training seminars on the protection of trademarks for those subsidiaries located in the areas where a large number of forgery cases on our corporate logos were found with a view to providing guidelines to them for effectively dealing with infringement on our rights of trademark. In case that our rights of trademark are infringed, evidence for the infringement must first be taken and kept promptly, and a report must be filed to competent industry and commerce authorities, and if necessary, directly pursue a civil lawsuit in People's Court.

## 2.6 Protection of the consumers' information

The Group centralizes the management of information on our consumers through our membership information system to protect consumers' information and prevents the leakage of such information by setting access authority for our employees at different levels. No unit or employee has the authority to gain the knowledge of or access to the information on relevant customers without valid permission. The Group organizes and conducts special training program on the *Law on Protection of Consumer Rights and Interests* from time to time to promote the awareness of consumer information protection among employees of various departments.

## 3. CARE FOR THE EMPLOYEES

The Group strictly abides by relevant national and local laws and regulations such as the *Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Regulation on Paid Annual Leave for Employees, the Regulation on Public Holidays for National Annual Festivals and Memorial Days* and *the Implementation Measures for Paid Annual Leave for Employees of Enterprises* and constantly pays heed to and keeps track of their latest changes to ensure that employees are guaranteed the most basic rights. In addition, the Group has always put its focus on attraction and retention of talents. The Group has established a comprehensive system for human resource management covering employment, remuneration and benefits, promotion, health and safety management. The Group has always placed importance on safeguarding the staff's legal interests and did our best to create and maintain a decent working environment with fair opportunities, diversified development channels and emphasis on professional ethics for them. During this year, the Group did not experience any violation of related labor laws or regulations or infringement of any staff member's legal interests which brought significant impact on the Group, nor were we subject to any complaints or any penalty.

### 3.1 Employment and recruitment

The Group has established a recruitment management system in accordance with relevant laws and regulations and internal requirements of the Group, and continues to expand and diversify our recruitment through various channels, such as website recruitment, campus recruitment, high-end headhunting and internal recruitments, which have provided us with stable and diversified human resources for the Company's long-term and sustainability development. We have also formulated a dismissal management system in accordance with the laws and regulations, and set out relevant provisions in employee contracts to protect the legitimate rights and interests of the employees. During the year, the Group further expanded the campus recruitment to visit various universities and have face-to-face communication with the students. The Group provides equal employment opportunities, a good remuneration model and a promotion environment for students, attracting the attention of many graduates.

During the recruitment process, we strictly prohibit any discrimination, and adhere to the principle of fair opportunity and selecting the best and the brightest. We use the combination of structured interviews, personality tests, and leaderless group discussions to ensure that candidates are treated equally. The Group also established an internal competition mechanism to provide its employees with opportunities to compete for a higher position. We actively encourage our employees to participate in the internal recruitments and always adhere to the principle of fairness and selecting the most suitable candidates in the recruitment process.

The Group has imposed strict prohibition from employing child labors. During the recruitment process, staff members of human resources department are required to check against the basic information of a candidate to ensure no under-aged candidate is recruited. The Group strictly prohibits all types of discrimination, including race, gender, birthplace, age, pregnancy and disability. The Group is also actively providing jobs for the disadvantaged groups to help solve the unemployment problem.

For the year ended 31 December 2018, the Group had a total of 7,039 employees and we did not recruit any child labors nor were we subject to any complaints or any penalty for employment of child labors.

| Indicators | | 2018 |
|---|---|---|
| Total number of employees | | 7,039 |
| Number of employees by genders | Male employees | 3,420 |
| | Female employees | 3,619 |
| Number of employees by ages | Aged below 30 | 4,307 |
| | Aged 30-40 (exclusive) | 1,744 |
| | Aged 40-50 (exclusive) | 820 |
| | Aged over 50 (inclusive) | 168 |
| Total number of employees by nature of employment | Employed by contract | 7,039 |
| | Employed by labor dispatch | 0 |
| Total number of employees by education | College diploma or below (inclusive) | 3,920 |
| | University graduates | 2,774 |
| | Master degrees or higher | 345 |
| Total number of employees by ranks | Senior management 1 | 170 |
| | Middle management 2 | 1,057 |
| | Elementary employees | 5,812 |

1. *Senior management includes general manager, deputy general managers, assistant general managers and directors*

2. *Middle management includes center's (deputy) general managers and departmental (deputy) general managers*

## 3.2 Protection of employees' rights and interests

The Group places importance on the protection of its employees' legal rights and interests, ensuring the provision of medical insurance, housing provident fund and other basic protection that meet the national requirements, and staff remuneration that is higher than the minimum wage of each region and fair promotion opportunities.

According to relevant laws and regulations, the Group has formulated and implemented the Contract Management System. We use a standard template for our employment contract and enter into formal employment contracts with all of our employees in accordance with the laws. The terms of the contracts clearly clarify that the employer is required to abide by, but not limited to working hours, leaves and holidays and basic salaries under the national laws and regulations relating to the protection of labors. We also formulated and distributed the Group's staff manuals in which clauses relating to the protection of employees' rights and interests are also set out.

We have established a fair and impartial appraisal and promotion system in accordance with the laws and have in place a bottom-up reporting and complaining system to protect employees' rights and interests. The Group has fully implemented a time clock policy to assist relevant persons in charge at all levels in managing their subordinates' working hours so as to ensure that all overtime works are performed strictly in accordance with national laws and regulations to avoid excessive overtime works. The Group actively promotes cultural diversity, respects for all religious beliefs and resolutely opposes any discrimination.

During the year, the Group did not commit any infringement on the rights and interests of the employees and was not subject to any complaints or penalties relating to the employment.

## 3.3 Employees' fringe benefits

The Group takes care of each of its employees and has provided comprehensive employees' fringe benefits for them, and has endeavored to maintain work-life balance for employees.

In addition to the basic five insurances and one fund for its employees, the Company also helps its employees to purchase supplementary medical insurances at preferential premiums and provides them with free meals and fruits in the Company. In addition, the Company also performs detailed background checks on outsourced catering service providers so as to ensure that the providers' qualifications meet the Company requirements for food safety assurance. The Company provides some newly-recruited employees with rent-free staff accommodation within walking distance from the Company.

With regard to leaves and holidays, the Company also provides its employees with special fringe benefits for holidays. For examples, glutinous dumplings are given to the employees on the Lantern Festival and honey on the National Day. In addition, the Company also gives gifts or grants subsidies to its employees on special occasions. For examples, birthday gift will be given to an employee on his/her birthday and relevant subsidies will be granted for wedding and funeral. Employees may also purchase mobile handsets in internal presales at privileged prices. The Company also awards domestic and overseas trips or cash bonus to the employees with outstanding performance.

## 3.4 Health and Safety

The Group places importance on the health and safety of all of its employees and promotes healthy work and life styles. The Group strictly abides by the laws and regulations relating to occupational safety and health such as *the Labor Law of the People's Republic of China*, *the Fire Prevention Law of the People's Republic of China* and *the Regulation on Work Related Injury Insurances*, and has established a comprehensive management system for its employees' health and safety in order to protect their mental and physical healthiness by creating a safe and protective work environment.

### *Health Management*

The Group adopts people-oriented approach and cares about employees' mental and physical healthiness. We provide annual medical examinations for all of our employees so that they may timely discover their health problems. The Company also invites relevant experts to hold lectures and training seminars on occupational health from time to time. In addition, we organize outdoor activities for all our employees during Spring and Autumn, which advocates their passion for life and sunshine.

The Group also formulated the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd. which set out strict requirements on safety and environmental protection for the fitting and decoration materials of each store so as to ensure the compliance with the relevant national regulations and standards for prevention from harming the employees' health. The Group also formulated standardized procedures on inspection and acceptance of decoration and renovation works at the stores to ensure the compliance with the safety standards of the store works.

### *Safety and protection*

With regard to occupational safety and protection, the Group has set working safety regulations to provide safety and protection to the staff. The Group conducts internal safety investigations with the property management offices from time to time. In the meantime, the Group issues fire safety notices and safety warnings based on the weather conditions. We also organized routine trainings on safety knowledge, survival skills and fire exercises for our employees. Such trainings were designed specifically based on their positions and the characteristic of their duties with a view to continuously improving their safety awareness and their ability to handle emergent or contingent situations.

Furthermore, the Group purchases medical insurance and work-related injury insurance for its employees in accordance with the provisions of relevant laws and regulations and has established a comprehensive system related to work injury prevention. The Group proactively eliminates potential safety hazards existed in the working environment that are prone to cause work-related injuries in order to prevent the job-related accidents from occurring. We have established a sound system for contingency and reaction of job-related injuries. In the event of the occurrence of a job-related accident, we shall take a quick and effective action to ensure that immediate treatment is provided to the injured employee.

During the year, the Group did not have any job-related fatal accidents or injuries.

## 3.5 Development and Training

The Group always regards upgrading employees' knowledge and skills as an everlasting driving force and resources for the long-term development of the Company. In order to continuously promote the upgrade of employees' knowledge and skills, the Group established a management mechanism for systematic staff training. We constantly updates and improves such training system and provides employees at all levels with tailor-made training material so as to achieve a win-win situation for the overall development of the Company and personal growth of its employees. Currently, the Group's main training programs include:

*Training for new employees*

The Company provides training to new employees through a combination of "group learning and active individual learning". During the probation period, new employee and his/her immediate supervisor will form a "1+1" mutual aid group which will help that new employee adapt to the new working environment and his/her duties as soon as possible. Induction training for new employees covers an overview of the Group's development, business profiles, corporate culture, remuneration and benefits, and rules and regulations, as well as professional attitude. Such training is aimed at helping the new employees to get familiar with the working environment and work processes as soon as practicable. Meanwhile, we also provide each employee with tailor-made transitional training during the first month of the formal employment following the probation period. Such training is designed to help streamline the transition from probation to formal appointment and highlight his/her new role and new challenges as a full-time employee.

In addition, the subsidiaries of the Group and all of our stores organize induction trainings for their new employees each month through which our internal basic rules and practices and our corporate culture will be introduced to them for the purposes of helping them get familiar with our working environment and his/her basic duties and responsibilities.

*Training for management trainees*

The Group regards the management trainees (hereinafter referred to "management trainees") as the key back-up force supporting the Group's further development and expansion and thus places importance on the training of them at both the headquarters level and subsidiary level. The Group has designed and organized training for management trainees which mainly covers:

- At the headquarters level: management trainees at the headquarters of the Company and outstanding management trainees recommended by the subsidiaries will participate in a 30-day secluded training camp held in Chengdu, the "Green Apple Training Camp". Lectures on professional topics and various outward bound trainings and action-based learnings will be conducted and emphasis is placed on the improvement of their social and practical skills, all aiming at helping them transit from campus life to career life.

- At the subsidiary level: the subsidiaries will, according to the requirement of the year, recommend outstanding management trainees to join the "Green Apple Training Camp", the management trainee training program organized by the headquarters. It will also organize training program for management trainees of the subsidiaries according to its development needs.

In addition, the Group organizes annual exchange session for all management trainees of the past in order to faciliate communication and exchange among each other. The gathering allows management trainees to feel one another's growth and changes through share of experiences, with which promotes their further development. During the year, the management trainee exchange session was held in Beijing in October as scheduled.

*Training for the management*

The Group organizes an annual "Red Apple Training Camp" for outstanding members of the management at the headquarters and the subsidiaries. Veteran managers of the Group are invited to give lectures in this secluded training session. The training camp provides an excellent opportunity for communication and interaction among the management members at different levels of the Group, with their skills and knowledge enhanced, which enables the Group to enjoy continual and steady growth.

*Training for trainee shop managers*

In order to foster outstanding frontline talents for the subsidiaries, the Group organizes a 20-day secluded training camp for the trainee shop managers. At the training camp, participants learn how to increase their knowledge, and improve their work skills and management skills through behaviour training, quality development and enhancement of professionalism, which can help them smoothly transit from frontline positions to management positions.

*Training for our in-house trainers*

With regard to the Group's internal training, our in-house trainers are responsible for holding the Company's internal training sessions and play an important role on training our employees at different levels. We have in place a tailor-made professional training program for the Group's in-house trainers to systematically enhance their training skills from production of teaching material, presentation skills to management of learning atmosphere.

*On-the-job training for our employees*

The Group centralizes our advantageous resources to establish an online and offline training platform with various on-the-job training courses for all of our employees. The topics of the training courses cover experience sharing with outstanding shop managers, specialized knowledge, frontline selling skills and general skills.

*Routine training for the employees of management rank*

The Group's headquarters and our subsidiaries organize weekly specific training sessions for the employees of management rank and above. The training covers characteristic of our key products, latest industry trend and professional knowledge on management with a view to helping them keep up with the latest development of our headquarters and the subsidiaries and enhance our internal communication.

*Pursuing further education*

In addition to organizing various internal training courses to improve the quality of our staff members, the Group also encourages them to pursue further education in tertiary institutes or other vocational training institutes provided that this does not affect their performance in discharging their duties. These forms of study include full-time or part-time study for a degree level qualification, induction training, examinations for professional titles and qualifications, studying abroad, overseas study tours for employees of management rank level and above. We encourage every staff member to achieve self-improvement and enlightenment through academic education and will provide them with appropriate subsidies.

*Other forms of training*

The Group is dedicated to create a favorable learning atmosphere. In addition to the above-mentioned training programs, the Group also encourages its employees to make full use of their spare time during daily work by organizing reading sessions and using WeChat official account. It also provides an online examination platform for employees to have self-assessment of the learning outcome.

- Reading sessions: a morning reading session is held at the headquarters daily from Monday to Friday each week, during which the participated staff members may communicate with each other and share their thoughts and views.

- Beijing Digital Business Studies WeChat Official Account (迪信通商學匯企業微信公眾號): general knowledge and experience are shared through the WeChat official account to help our staff members get the most from their learning journeys at their spare time.

- Individual learning + group assessment: this form of learning comprises mainly business training. Relevant materials are centrally published via the Company's learning system and a staff member may take an online assessment via the online examination platform after studying for self-assessment and fortify the learning outcome.

## 4. ANTI-CORRUPTION MANAGEMENT

Anti-corruption is a long-term task that can ensure an enterprise's stability, existence and healthy growth. The Group always regards honesty and integrity as one of its core values and do its best to avoid committing any act that will violate any professional codes or business ethics. We strictly comply with applicable national and local laws and regulations such as the *Anti-Unfair Competition Law of the People's Republic of China*, and the *Interim Provisions on Banning Commercial Bribery*. In addition, based on the Company's actual situation, we have proactively formulated relevant administrative rules for preventive and punitive purposes, such as the *Anti-bribery Regulations*, *Procedures and Measures for Dealing with Fraud* and *Beijing Digital Rules for Procurement Control*.

### Fighting against corruption

The Group has formulated the *Rules for Honest Practices for Beijing Digital Telecom Co., Ltd.* to consistently facilitate the lawful operation of the Company, enhance our staff's business ethics relating to honesty, integrity and self-discipline and protect the Company's interests and our staff's legal rights and interests. The Rules cover codes on honest practices, prohibition on appropriation constituting breach of duty and commercial bribery, and unauthorized disclosure of trade secrets and imposition of penalties on and provision of incentives to those employees who have committed prohibited acts or voluntarily reported prohibited acts.

The Group has adopted a strict internal control policy to prevent misconducts such as corruption, bribery, extortion, fraud and money laundering. The Group's internal audit department performs internal audit to monitor daily operations of our subsidiaries. In addition, the finance department of the Group's headquarters also performs regular check on the cash outflow of the subsidiaries. The staff members of the procurement department will be rotated among departments from time to time for various terms which will help prevent the occurrence of corruption in the business operations.

With regard to our suppliers, prior to establishing a business relation with a new supplier, the business department must perform a due diligence on its background to ensure that its quoted price is in line with the prevalent market price. All relevant supporting documents for the procurement must be confirmed and checked. Unless properly authorized, no procurement staffer is permitted to place any order through his/her personal account, nor is he/she permitted to ask any advance payments from a supplier. In addition, all contracts entered into by the Group and its principal suppliers contain explicit term on compliance with applicable laws and regulations on anti-bribery and anti-money laundering.

The Group has established a sound system for internal audit and risk control, and has set up a specific internal audit team which is responsible for thoroughly reviewing the anti-corruption system on a regular basis. The internal audit team consists of eight members who are holders of bachelor's degree in finance, accounting or management. The internal audit team performs internal audits for all subsidiaries each year to check whether they operate in compliance with the internal control policies of the Company. If it is determined that there exists any irregularity, the internal audit team will carry out an ad hoc inspection and record all actions they have taken and their findings. They will make a recommendation on the improvement on the internal control system and submit their report to the senior management. Our senior management is responsible for evaluating whether the anti-corruption policy is effective and whether there exists any weakness on the internal control system, and make timely enhancements.

### Promotion and training

In order to effectively promote the Rules for Honest Practices among the staff of the enterprise, and improve professional ethics of employees, the legal affairs department of the Group conducts regular promotion and management meetings and adjusts and updates the promotion contents from time to time in accordance with the strategy management concept of the Company. The Group also provides trainings to the staff and the senior management on commercial codes and ethics and legal policies on anti-corruption, anti-fraud and anti-money laundering semi-annually.

### Reporting and Handling of Reporting

The Group values its employees' thought and opinion and collect information on risks through various established channels in order to get awareness on potential risks in a timely manner and discover and handle illegal activities relating to corruption and fraudulent business activities. The Group has put in place the effective channels of a reporting hotline and "anonymous reporting platform" function of WeChat account for the staff at Beijing Digital, its business partners and customers to share their opinions and suggestions. The respective departments of the Group would collect relevant information, analyse the problems, examine solutions and resolve the problems, thereby resulting in the sound development of the Company and safeguarding the interests of stakeholders of the Company.

## 5. SUPPLY-CHAIN MANAGEMENT

The Group has put in place a proven supply-chain management system and put efforts on procuring its suppliers to improve their performances on environment and community friendliness. We have a strict procurement approval processes, new supplier selection standards and other supplier management rules. All suppliers are required to be in compliance with relevant national and local laws and regulations, facilitate compliance operation and possess relevant documents evidencing their qualifications.

In the event that a new supplier is introduced to us, we shall evaluate its performance on environment and community friendliness as one of our new supplier selection standards. A new supplier which meets our requirements will enter into a cooperation agreement with us covering the procurement process, product quality and dispute resolution. Once an agreement is signed, such new supplier has to submit relevant qualification documents via our office automation system (the OA system). Such documents will be effective after examination by the Procurement Department, Finance Department and Systems Department of the Group (in that order).

With regard to the principal business of the Group, the Group's handset suppliers are mostly top-ranking brand handset manufacturers. We closely keep track of the latest industry trend and constantly update our existing supplier database based on the supplies' production plans. During this year, we included a number of new brand handset manufacturers such as Sugar and Meitu in our supplier list.

In addition, with regard to the service providers of decoration works, the Group not only has clear requirements on their compliance records and validity of their qualifications but also imposed restrictions on their choice of materials in the *Rules for Store Decoration for Beijing Digital Telecom Co., Ltd.* requiring them to use green and environmentally friendly materials in their decoration works.

## 6. COMMUNITY INVESTMENT

The Group's responsibilities lie not only on making more economic contributions to the society, but also on actively fulfilling our social responsibility as a corporate citizen, sharing interests and benefits with the communities we serve and supporting the sustainable development of the communities. We have established a communication mechanism with the community and integrated our comprehensive community welfare projects with our business operations. We adjust our corporate social responsibility policies based on the community needs. We work closely with our staff, professional organizations, relevant community organizations and the government to respond to the needs of the communities and provide human and material support for the community welfare activities.

- "Infinite love spreading by Beijing Digital (大愛無限 • 迪信通見)"

  In 2018, the Group organized charitable activity with the theme of "Infinite love spreading by Beijing Digital" with China Charities Aid Foundation for Children, which aimed at supporting the life and education of children in the disadvantaged areas. The activity was comprised of "charity donation" and "charity sales". For the customers who have bought the designated charity mobile model during the "charity donation" activity, Beijing Digital had promised to donate part of the sales proceeds of each mobile to the children in the disadvantaged areas through China Charities Aid Foundation for Children, and to make contribution to their life and education. For the "charity sales" activity, we selected 30 core stores of Beijing Digital across the country to jointly conducted the charity sales activity. Beijing Digital stores, being the charity sales stations, allowed the customers to conduct charity sales and exchange of second-hand goods.

- Launch of "Caring for the Spring Festival homecomers activity (春節返鄉關愛活動)"

  During the Spring Festival holidays in February 2018, the Group launched the "Caring for the Spring Festival homecomers activity" at various stores in the provinces and cities across the country. Taking advantage of the extensive presence of our physical outlets, we provided a number of free services for the homecomers. Over the years, Beijing Digital consistently organized such activities during the Spring Festival to bring care and warm to the homecomers. During the activity, Beijing Digital set up a specific area outside the stores where homecomers would pass through based on the past experience and actual situation. They offered free hot drinks and food and services such as mobile power banks and first aid box (including bandage, mercurochrome and medicines for treating colds). This could help soothes away those homecomers' fatigue and chill in their hearts and bodies on their way home and ensure that they had safe and warm homecoming journeys.

- Provision of services to the candidates of National Higher Education Entrance Examination

  Over the years, Beijing Digital persisted in offering a number of online and offline high-quality services during the higher education entrance examination period to care for and support whole-heartedly the candidates of the entrance examination and their families. During the examination period, shop assistants of the Group's stores were assigned to set up service counters at the examination campuses in the cities where such stores are located, and bottles of mineral water, mobile power banks, fans and other items for relieving summer heat and sunburn were given away to the candidates and their parents free of charge. The candidates and their parents might also collect small gifts from our nearest stores with our promotion leaflets or coupons distributed at the examination campuses. In addition, we also hung up banners around the examination campuses to encourage the candidates, stimulating their mind power and providing support to them.

## 7. ENVIRONMENTAL RESPONSIBILITY

The Group places great emphasis on sound environmental management and actively pursues energy saving and reduction of emission so as to protect the environment. We integrate the concept of environmental protection into our daily operation and management, strictly comply with the regulations of national and local environmental regulatory bodies and relevant industry guidelines and constantly improve our performance on environmental protection.

### 7.1 Management of emissions

The Group puts efforts on minimizing the generation of pollutants from the operation of the Company and the impact on surrounding environment as much as possible. We regularly keep tracks of and strictly abide by the national and local laws relating to environment such as *the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Appraising of Environmental Impacts, the Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes, the Water Pollution Prevention and Control Law of the People's Republic of China* and *the Atmospheric Pollution Prevention and Control Law of the People's Republic of China*. During the year, there was no fine imposed on or litigation against the Company arising from environmental pollution.

Because of the nature of our business, the sources for emission of waste gas of the Group are mainly emission of exhaust gas from the Company's motor vehicles and greenhouse gas emissions due to energy consumption. We continuously strengthened the management of the Company's motor vehicles and improved the efficiency of the use of those vehicles to reduce the generation of exhaust gas. The specific measures included strict management on refuelling the Company's motor vehicles and encouragement of the use of public transport services. We also held an inter-group promotional campaign for the use of electric vehicles.

In our daily operation, our greenhouse gas emissions mainly come from energy consumption at our offices and stores. The Group promotes the concept of daily energy saving and low-carbon emission to its staff in order to improve the efficiency of the use of resources. During the year, the total greenhouse gas emissions generated from energy consumption at the headquarters of the Group and offices of each subsidiary reduced by approximately 6%.

The source of the Group's solid waste is mainly the wastes generated from our daily operation. In order to reduce such wastes, we encourage our staff to reduce the use of paper, introduce the concept of paperless office, and continuously promote the use of automated office software in the Group as a whole. In the meantime, the Group is also committed to improving the efficiency of the use of office consumables and promoting the recycling of office consumables. Currently, a number of our subsidiaries have policies to have their used toner cartridges and ink cartridges collected by the manufacturers for recycling. The office wastes and daily wastes generated from the Group's daily operation are collected by third-party recyclers for recycling. During the year, the total wastes generated from the headquarters of the Group and subsidiaries were generally maintained at a stable level.

With regard to the use of loudspeakers or any other audio equipment in any promotional events, the Group requires our stores to file application and details of the event with local urban management law enforcement bureaus before the events are held and strictly control the decibel level to effectively reduce the volume of the noise so as to minimize the impact of the noise on the entities and the general public in the surrounding areas.

*Performance of the management of emissions*

Unless otherwise stated, the environmental data provided in this section only covers the Group's headquarters, offices of the subsidiaries and the warehouse (data from the stores are not included).

| Indicators | 2018 |
|---|---|
| Sulfur dioxide (tons)[1] | 0.06 |
| Nitrogen oxide (tons)[1] | 2.01 |
| Total greenhouse gas emissions (scope 1 and scope 2) (tons)[2] | 2,257.54 |
| Greenhouse gas emissions intensity (ton/square meter) | 0.11 |
| Greenhouse gas emissions intensity (ton/person) | 0.89 |
| Direct emissions (scope 1) (tons) | 1,085.20 |
| Petrol | 940.33 |
| Diesel | 144.87 |
| Indirect emissions (scope 2) (tons) | 1,172.34 |
| Externally-purchased electricity | 1,172.34 |
| Non-hazardous waste (tons)[3] | 91.04 |
| Average per capita non-hazardous waste (ton/person) | 0.04 |
| Daily waste | 91.04 |
| Construction waste | 0.00 |
| Hazardous waste (tons)[4] | 0.47 |
| Average per capita hazardous waste (ton/person) | 0.0002 |
| Used toner cartridges | 0.26 |
| Used fluorescent tubes | 0.21 |

1 *Sulfur dioxide and nitrogen oxide emissions were mainly generated from fuel combustion of the Company's motor vehicles. There was no direct use of other energy, such as natural gas, which fell within the scope of disclosure. The data for the emissions of sulfur dioxide and nitrogen oxide was calculated based on the Technical Guidelines for the Preparation of Atmospheric Pollutants Emission Inventory for Road Vehicles (Trial) (道路機動車大氣污染物排放清單編製技術指南（試行）) issued by the Ministry of Environmental Protection of People's Republic of China.*

2 *Greenhouse gas inventory included carbon dioxide, methane and nitrous oxide, which were mainly generated from externally-purchased electricity and fuel combustion. Greenhouse gas accounting is presented based on carbon dioxide equivalent and was calculated in accordance with the Baseline Emission Factors of Regional Power Grid in China 2015 (2015中國區域電網基準線排放因數) issued by the National Development and Reform Commission of China and the IPCC National Greenhouse Gas Inventory Guide 2006 (2006年IPCC國家溫室氣體清單指南) issued by the Intergovernmental Panel on Climate Change (IPCC).*

3 *Non-hazardous wastes were collected by waste collection services providers. Those wastes mainly included office wastes from our offices and construction wastes from decoration works.*

4 *Hazardous wastes were collected by third-party recyclers. Those wastes included used toner cartridges, used ink cartridges and used fluorescent tubes.*

## 7.2 Use of resources

The Group constantly keeps watch for, identifies and minimizes the impact of our daily business activities on the environment and puts efforts on improving the efficiency of the use of resources. We promote management and more efficient use of the Company's assets by establishing asset management system. Meanwhile, we placed emphasis on fostering staff's awareness on energy-saving. We displayed signs for energy saving in prominent places in our offices. We also reminded and asked our staff to actively follow and act on the Company's energy-saving measures in routine meetings, such as switching off idle lightings and reducing the standby time of electrical appliances, which effectively improved our staff's awareness on energy saving. We also promoted the use of energy-saving lightings. Currently, energy-saving lightings have generally been used in the offices in the Group's headquarters and the subsidiaries. We also encourage our staff to control water usage and reduce the consumption of bottled water.

During the year, the Company facilitated changes of office environment, in which office space, water and electric heaters were further optimized. After the improvement of the office environment, all office supplies have complied with the principle of reuse and fully realized the recycling of old office supplies. For the use of resources and environmental protection, the Company promoted and encouraged the autonomous separation with regard to the staffs using disposable lunch box. We conducted recycling of lunch box in specific locations to centralize the disposal of recyclable wastes.

In our business operation, we put further efforts in promoting the concept of green operation to our frontline shop managers and encourage them to take environmental friendly measures at the stores. For example, they were encouraged to re-use promotional materials, reduce the distribution of paper leaflets and carry out promotional activities at WeChat push and other online platforms. Currently, more and more stores put greater efforts in their online promotion. Meanwhile, we are supporting the mobile power bank sharing campaign in order to improve the efficient use of mobile power banks and save the social resources.

During the year, the total electricity consumption of the Group's headquarters and subsidiaries increased while fuel combustion of the Company's motor vehicles reduced, which led to the reduction of overall energy consumption.

### *Performance of the management of consumption of energy and resources*

Unless otherwise stated, the environmental data provided in this section only covers the Group's headquarters, offices of the subsidiaries and the warehouse (data from the stores are not included).

| Indicators | 2018 |
|---|---|
| Total energy consumption (MWh)[1] | 5,561.18 |
| Energy intensity assumption (MWh/square meter) | 0.27 |
| Energy intensity assumption (MWh/person) | 2.19 |
| Direct energy consumption (MWh) | 4,299.03 |
| Petrol (MWh) | 3,747.77 |
| Diesel (MWh) | 551.26 |
| Indirect energy consumption (MWh) | 1,262.15 |
| Electricity (MWh) | 1,262.15 |
| Water consumption (tons)[2] | 12,959.36 |
| Average per capita water consumption (ton/person) | 5.11 |
| Use of paper for printing (tons) | 17.78 |
| Wrapping materials (tons)[3] | 103.32 |
| Use of wrapping materials per 10,000 mobile handsets sold (ton/10,000 mobile handsets)[4] | 0.10 |

1. *The figure for energy consumption was calculated based on the electricity and fuel consumption and the conversion factors in the General Principles for Calculation of Total Production Energy Consumption (GB/T 2589-2008)(綜合能耗計算通則（GB/T 2589-2008）), the national standard of the People's Republic of China.*

2. *Water consumption includes the consumption of tap water and drinking water. Among which, the water consumptions in our headquarters in Beijing, subsidiaries in Shanghai, Sichuan, Liaolin, Shanxi, Wubei, Shandong, Hebei, Fujian and offices of Jiaxing City D-phone Communication Technology Co., Ltd. (嘉興市迪加通信技術有限公司), Nanjing Yijialong Communication Technology Co., Ltd., (南京億家隆通信技術有限公司) and Jiangsu Shengduo Technology Trading Co., Ltd. were currently excluded in the calculation as their tap water tariffs were included in their property management fees and thus the calculation did not cover their water consumptions.*

3. *Because of the nature of our business, the wrapping materials were mainly paper bags and non-woven bags given away to the consumers for containing the mobile handsets sold to them, excluding the wrapping materials provided by the manufacturer wrapped in the product sold. The figure for the wrapping materials included such wrapping materials as those paper bags and non-woven bags centrally procured by the subsidiaries. The change of total use of wrapping materials for the year was mainly due to the adjustment of calculation method of some subsidiaries.*

4. *Use of wrapping materials per ten thousand units of mobile handsets sold represented the average consumption for wrapping materials for selling 10,000 units of mobile handsets.*

## 7.3 MATERIAL IMPACT ON ENVIRONMENT AND NATURAL RESOURCES

Owing to the nature of our core business, the impact brought by the Group on the environment and natural resources is limited. The consumption of resources mainly represents consumptions of electricity, water and paper in our offices and stores. In addition to saving energy, reducing the emissions and strengthening the management on the use of resources, the Group also actively promotes green development in the course of its business operation.

During the year, we continued to provide service of trading in used mobile handsets for new ones in order to collect back the used mobile handsets. This activity not only helps promote environmental protection but also is well-received by the majority of consumers. We would earn commissions for the service of trading in used mobile handsets for new ones and create opportunity for the sales of new mobile handsets as well. As compared to 2017, the business volume in 2018 has increased. The business coverage includes all provincial and municipal subsidiaries excluding Xinjiang and Zhuzhou.

# INDEPENDENT AUDITOR'S REPORT

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**To the shareholders of Beijing Digital Telecom Co., Ltd.**
*(Established in the People's Republic of China with limited liability)*

## OPINION

We have audited the consolidated financial statements of Beijing Digital Telecom Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 115 to 216, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**To the shareholders of Beijing Digital Telecom Co., Ltd.**
*(Established in the People's Republic of China with limited liability)*

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Recoverability of trade receivables*** | |
| As at 31 December 2018, the balance of trade receivables amounted to RMB2,278,015,000 and the provision for impairment amounted to RMB108,067,000. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. This involves management's judgement, which includes checking the age of the balance, recent historical payment patterns, forecasts of future conditions and assessing any other available information concerning the creditworthiness of the counterparties. The Group uses such information to determine whether a provision for impairment is required either for a specific transaction or for a customer category's overall balance.<br><br>Related disclosures are included in note 27 to the consolidated financial statements. | We obtained and re-tested the ageing analysis prepared by management. We also obtained management's accounting policy and assumptions underlying the loss allowance for impairment of trade receivables. In order to assess these judgements, we considered the overdue period, the customers' historical payment patterns and whether any post year-end payments were received up to the date of completion of our audit procedures. We assessed whether the time value of money was considered in the expected credit loss impairment model and evaluated the Group's provisioning rates by corroborating to underlying facts along with other macroeconomic information and performed sample testing on the receivable balances. In assessing the overall provision for impairment, we also assessed the adequacy of the Group's disclosures in the financial statements in accordance with IFRS 9. |
| ***Impairment assessment of goodwill*** | |
| The Group performs impairment review of goodwill annually on a value-in-use basis. This annual impairment test was significant to our audit because the balance of goodwill amounted to RMB94,687,000, which accounted for 1.2% of the total assets, and the provision for impairment amounted to RMB22,041,000 as at 31 December 2018. In addition, management's assessment process is complex and highly judgemental and is based on assumptions, specifically revenue growth, profit margins and discount rates, which are affected by expected future market or economic conditions.<br><br>Related disclosures are included in note 17 to the consolidated financial statements. | We evaluated management's future cash flow forecasts, including the forecasts with business operation and development and comparison of the underlying calculations. We tested the key assumptions for the growth rates in the cash flow forecasts by comparing them to historical results, and economic forecasts; and the discount rates by independently estimating a range based on market data. Further, we also involved our internal valuation specialist to review the key parameters used in the fair value models adopted by the Group. We also assessed the adequacy of the Group's disclosures in the financial statements. |

**To the shareholders of Beijing Digital Telecom Co., Ltd.**
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## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

**To the shareholders of Beijing Digital Telecom Co., Ltd.**
*(Established in the People's Republic of China with limited liability)*

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

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

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

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

**To the shareholders of Beijing Digital Telecom Co., Ltd.**
*(Established in the People's Republic of China with limited liability)*

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Wai Lap, Philip.

**Ernst & Young**
*Certified Public Accountants*
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 March 2019

# 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** | *7* | **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 | *7* | **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 | *9* | **(192,106)** | (182,741) |
| Share of profits/(losses) of: | | | |
| Joint ventures | | **(4,253)** | 4,934 |
| Associates | | **894** | (3,286) |
| **PROFIT BEFORE TAX** | *8* | **384,842** | 400,429 |
| Income tax expense | *12* | **(78,633)** | (77,940) |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **306,209** | 322,489 |
| **DISCONTINUED OPERATION** | | | |
| Profit for the year from a discontinued operation | *13* | **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) | | | |
| For profit for the year | *15* | **0.49** | 0.48 |
| For profit from continuing operations | *15* | **0.48** | 0.48 |

| | **2018**<br>**RMB'000** | 2017<br>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 income/(loss) of a joint venture | **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 | 16 | **130,744** | 132,150 |
| Goodwill | 17 | **72,646** | 57,476 |
| Other intangible assets | 18 | **7,492** | 328 |
| Investments in joint ventures | 19 | **74,313** | 76,840 |
| Investments in associates | 20 | **37,114** | 10,091 |
| Equity investments designated at fair value through other comprehensive income | 21 | **41,713** | – |
| Available-for-sale investments | 21 | **–** | 10,845 |
| Deferred tax assets | 22 | **40,892** | 35,624 |
| Loan receivables | 23 | **16,472** | 54,217 |
| Total non-current assets | | **421,386** | 377,571 |
| **CURRENT ASSETS** | | | |
| Inventories | 24 | **2,541,787** | 2,297,599 |
| Properties under development | 25 | **–** | 82,121 |
| Completed properties held for sale | 26 | **–** | 119,594 |
| Trade and bills receivables | 27 | **2,172,337** | 1,986,806 |
| Prepayments, other receivables and other assets | 28 | **1,331,443** | 1,357,765 |
| Loan receivables | 23 | **40,640** | 300,000 |
| Due from the controlling shareholder | 30 | **35,000** | – |
| Due from related parties | 30 | **168,711** | 53,887 |
| Available-for-sale investments | 21 | **–** | 210,000 |
| Pledged deposits | 29 | **660,251** | 953,421 |
| Cash and cash equivalents | 29 | **708,548** | 614,879 |
| Total current assets | | **7,658,717** | 7,976,072 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 31 | **484,876** | 431,935 |
| Other payables and accruals | 32 | **341,922** | 379,215 |
| Interest-bearing bank and other borrowings | 33 | **3,066,638** | 3,147,184 |
| Due to related parties | 30 | **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 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 33 | **–** | 596,542 |
| **NET ASSETS** | | **3,833,705** | 3,511,342 |

| | *Notes* | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | *34* | **666,667** | 666,667 |
| Reserves | *35* | **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 |

***Liu Donghai***
*Director*

***Liu Songshan***
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended 31 December 2018*

| | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 *(Note 34)* | Capital reserve RMB'000 *(Note 35)* | Statutory reserve funds RMB'000 *(Note 35)* | Retained profits RMB'000 | Fair value reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2017 | 666,667 | 524,953 | 211,412 | 1,706,612 | – | – | 3,109,644 | 59,970 | 3,169,614 |
| Profit for the year | – | – | – | 322,490 | – | – | 322,490 | 457 | 322,947 |
| Other comprehensive loss for the year: | | | | | | | | | |
| Share of other comprehensive loss of a joint venture | – | – | – | – | – | (1,075) | (1,075) | – | (1,075) |
| Total comprehensive income for the year | – | – | – | 322,490 | – | (1,075) | 321,415 | 457 | 321,872 |
| Capital contribution by non-controlling shareholders | – | – | – | – | – | – | – | 19,856 | 19,856 |
| Transfer from retained profits | – | – | 32,249 | (32,249) | – | – | – | – | – |
| At 31 December 2017 | 666,667 | 524,953 | 243,661 | 1,996,853 | – | (1,075) | 3,431,059 | 80,283 | 3,511,342 |
| At 31 December 2017 | 666,667 | 524,953 | 243,661 | 1,996,853 | – | (1,075) | 3,431,059 | 80,283 | 3,511,342 |
| Effect of adoption of IFRS 9 | – | – | – | – | (950) | – | (950) | – | (950) |
| Effect of adoption of IFRS 15 | – | – | – | (1,571) | – | – | (1,571) | – | (1,571) |
| **At 1 January 2018 (restated)** | **666,667** | **524,953** | **243,661** | **1,995,282** | **(950)** | **(1,075)** | **3,428,538** | **80,283** | **3,508,821** |
| Profit for the year | – | – | – | **329,536** | – | – | **329,536** | **(7,435)** | **322,101** |
| Other comprehensive income for the year: | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | **504** | **504** | **332** | **836** |
| Change in fair value of equity investments at fair value through other comprehensive income, net of tax | – | – | – | – | **1,601** | – | **1,601** | – | **1,601** |
| Share of other comprehensive gain of a joint venture | – | – | – | – | – | **151** | **151** | – | **151** |
| Total comprehensive income for the year | – | – | – | **329,536** | **1,601** | **655** | **331,792** | **(7,103)** | **324,689** |
| Capital contribution by non-controlling shareholders | – | – | – | – | – | – | – | **49,651** | **49,651** |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | **(3,749)** | **(3,749)** |
| Disposal of subsidiaries | – | – | – | – | – | – | – | **(45,707)** | **(45,707)** |
| Transfer from retained profits | – | – | **32,954** | **(32,954)** | – | – | – | – | – |
| At 31 December 2018 | **666,667** | **524,953** | **276,615** | **2,291,864** | **651** | **(420)** | **3,760,330** | **73,375** | **3,833,705** |

* *These reserve accounts comprise the consolidated reserves of RMB3,093,663,000 (2017: RMB2,764,392,000) in the consolidated statement of financial position.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended 31 December 2018*

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax: | | | |
| From continuing operations | | **384,842** | 400,429 |
| From a discontinued operation | *13* | **15,892** | 458 |
| Adjustments for: | | | |
| Finance costs | *9,13* | **193,210** | 182,741 |
| Interest income from loan receivables and others | | **(15,798)** | (3,098) |
| Share of profits and losses of joint ventures | | **4,253** | (4,934) |
| Share of profits and losses of associates | | **(894)** | 3,286 |
| Impairment of goodwill | *8* | **22,041** | – |
| Provision for impairment of an available-for-sale investment | *8* | **–** | 2,230 |
| Provision for impairment of trade receivables | *8* | **2,825** | 12,692 |
| Provision for impairment of amounts due from related parties | *8* | **236** | 1,510 |
| Provision for impairment of other receivables | *8* | **24,449** | 2,386 |
| Provision for impairment of inventories | *8* | **22,665** | 21,063 |
| Depreciation | *8, 13* | **58,122** | 65,599 |
| Amortisation of intangible assets | *8* | **1,076** | 525 |
| Gain on disposal of subsidiaries | *8, 13* | **(7,464)** | – |
| Gain on acquisition of a subsidiary | | **(189)** | – |
| Loss on disposal of an investment of a joint venture | *8* | **129** | – |
| Loss on disposal of items of property, plant and equipment | *8* | **1,817** | 1,676 |
| Foreign exchange loss, net | | **636** | 1,149 |
| | | **707,848** | 687,712 |
| Increase in trade and bills receivables | | **(191,825)** | (227,222) |
| Increase in prepayments, other receivables and other asset | | **(22,261)** | (232,143) |
| Increase in pledged deposits | | **(3,243)** | – |
| Increase in inventories | | **(274,746)** | (143,013) |
| Decrease in properties under development | | **69,593** | 234,035 |
| Decrease/(increase) in completed properties held for sale | | **15,252** | (119,594) |
| Increase/(decrease) in trade and bills payables | | **71,509** | (11,305) |
| Decrease in other payables and accruals | | **(18,323)** | (40,982) |
| Increase in amounts due from related parties | | **(113,383)** | (41,893) |
| Increase/(decrease) in amounts due to related parties | | **47,725** | (6,547) |
| Cash from operations | | **288,146** | 99,048 |
| Income tax paid | | **(21,897)** | (29,463) |
| Net cash flows from operating activities | | **266,249** | 69,585 |

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of subsidiaries | 36 | **(9,732)** | – |
| Disposal of subsidiaries | 37 | **(33,160)** | – |
| Purchases of items of property, plant and equipment | | **(67,892)** | (42,353) |
| Purchases of items of other intangible assets | | **(819)** | – |
| Proceeds from disposal of items of property, plant and equipment | | **2,636** | 466 |
| Interest received | | **12,934** | 2,190 |
| Decrease/(increase) in investments in financial products by bank | | **210,000** | (210,000) |
| Acquisition of interests in a joint venture | | **(1,500)** | (24,175) |
| Acquisition of interests in an associate | | **(10,000)** | (2,000) |
| Purchases of equity investments at fair value through other comprehensive income | | **(30,000)** | – |
| Prepayment arising from acquisitions | | **(3,000)** | (23,000) |
| Advances of loans | | **(18,577)** | (339,719) |
| Decrease in loan receivables | | **300,000** | – |
| **Net cash flows from/(used in) investing activities** | | **350,890** | (638,591) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of bonds | | **–** | 595,500 |
| New bank loans | | **7,116,070** | 7,341,360 |
| Capital contribution from non-controlling shareholders | | **49,651** | – |
| Decrease/(increase) in pledged deposits | | **296,413** | (138,054) |
| Repayment of bank loans | | **(7,794,629)** | (7,250,579) |
| Interest paid | | **(191,739)** | (147,949) |
| **Net cash flows (used in)/from financing activities** | | **(524,234)** | 400,278 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **92,905** | (168,728) |
| Cash and cash equivalents at beginning of year | | **614,879** | 784,756 |
| Effect of foreign exchange rate changes, net | | **764** | (1,149) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **708,548** | 614,879 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **708,548** | 614,879 |
| **CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION** | | **708,548** | 614,879 |

## 1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("PRC"). The registered office of the Company is located at No.101, 4/F, C Yi'an Business Building, 18 Building Yi'an Jiayuan, Beiwa West, Haidian District, Beijing, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale of mobile telecommunications devices and accessories, the provision of related services and the development and sale of properties.

In the opinion of the directors, the controlling shareholders of the Company are Mr. Liu Donghai, Mr. Liu Songshan, Ms. Liu Hua, Ms. Liu Wencui and Ms. Liu Yongmei, who are brothers and sisters.

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name of the principal subsidiaries | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|
| Beijing D-phone Trading Co., Ltd.* (北京迪信商貿有限責任公司) | RMB100,000,000 | 100 | – | (1) |
| Beijing D-phone Electronic Communication Technology Co., Ltd.* (北京迪信通電子通信技術有限公司) | RMB10,000,000 | 100 | – | (1) |
| Beijing Shengduo Trading Co., Ltd.* (北京勝多商貿有限責任公司) | RMB10,000,000 | 100 | – | (1) |
| Jiangsu Shengduo Technology Trading Co., Ltd.* (江蘇勝多科貿有限責任公司) | RMB10,000,000 | 100 | – | (1) |
| Jiangsu D-phone Communication Technology Co., Ltd.* (迪信通通訊科技江蘇有限公司) | RMB20,000,000 | – | 100 | (1) |
| Shanghai Chuanda Communication Technology Co., Ltd.* (上海川達通信技術有限公司) | RMB10,000,000 | 100 | – | (1) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Name of the principal subsidiaries | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Percentage of equity attributable to the Company Indirect % | Principal activities |
|---|---|---|---|---|
| Shanghai Dixin Electronic Communication Technology Co., Ltd.* (上海迪信電子通信技術有限公司) | RMB20,000,000 | 100 | – | (1) |
| Shanghai Dixin South Communication Technology Co., Ltd.* (上海迪信南方通信技術有限公司) | RMB20,000,000 | 100 | – | (1) |
| Hefei D-phone Communication Technology Co., Ltd * (合肥迪信通通信技術有限公司) | RMB10,000,000 | 100 | – | (1) |
| Shenyang Tongliansihai Electronic Communication Technology Co., Ltd.* (瀋陽通聯四海電子通信技術有限公司) | RMB10,000,000 | 100 | – | (1) |
| Changsha D-phone Electronic Science and Technology Information Co., Ltd.* (長沙迪信通電子科技信息有限公司) | RMB30,000,000 | 100 | – | (1) |
| Beijing Dixinhaotian Trading Co., Ltd.* (北京迪信昊天商貿有限公司) | RMB10,000,000 | 100 | – | (1) |
| Guangxi D-phone Electronic Communication Technology Co., Ltd.* (廣西迪信通電子通信技術有限公司) | RMB15,000,000 | 100 | – | (1) |
| Zhejiang D-phone Trading Co., Ltd.* (浙江迪信通商貿有限公司) | RMB10,000,000 | 100 | – | (1) |
| Sichuan Yijialong Communication Technology Chain Co., Ltd.* (四川億佳隆通訊連鎖有限公司) | RMB5,000,000 | 100 | – | (1) |
| Beijing D-phone Fengze Electronic Equipment Co., Ltd.* (北京迪信通豐澤電子設備有限公司) | RMB5,000,000 | – | 100 | (1) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Name of the principal subsidiaries | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|
| Jinan Dixin Electronic Communication Technology Co., Ltd.* (濟南迪信電子通信技術有限公司) | RMB10,500,000 | 100 | – | (1) |
| Nanyang D-phone Electronic Communication Technology Co., Ltd.* (南陽迪信通電子通信技術有限公司) | RMB8,000,000 | – | 100 | (1) |
| Qingdao D-phone Communication Technology Co., Ltd.* (青島迪信通通信技術有限公司) | RMB5,000,000 | – | 100 | (1) |
| Hunan Zhongxuntong Electronic Science and Technology Co., Ltd.* (湖南中訊通電子科技有限公司) | RMB5,000,000 | 100 | – | (1) |
| Inner Mongolia D-phone Electronic Communication Technology Co., Ltd.* (內蒙古迪信通電子通信技術有限公司) | RMB5,000,000 | 100 | – | (1) |
| Zhengzhou D-phone Electronic Communication Technology Co., Ltd.* (鄭州迪信通電子通信技術有限公司) | RMB13,000,000 | 100 | – | (1) |
| Henan D-phone Electronic Communication Technology Co., Ltd.* (河南迪信通電子通信技術有限公司) | RMB20,000,000 | 100 | – | (1) |
| Tianjin D-phone Electronic Communication Technology Co., Ltd.* (天津迪信通電子通信技術有限公司) | RMB30,000,000 | 100 | – | (1) |
| Guangdong D-phone Trading Co., Ltd.* (廣東迪信通商貿有限公司) | RMB10,000,000 | 100 | – | (1) |
| Ningbo Hi-tech District Chaofa Technology Co., Ltd.* (寧波高新區超發科技有限公司) | RMB10,000,000 | 100 | – | (1) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Name of the principal subsidiaries | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Percentage of equity attributable to the Company Indirect % | Principal activities |
|---|---|---|---|---|
| Ningbo Hi-tech Zone Wencui Technology Co., Ltd.* (寧波高新區文翠科技有限公司) | RMB10,000,000 | – | 100 | (1) |
| Hebei Dixin Electronic Communication Equipment Co., Ltd.* (河北迪信電子通信設備有限公司) | RMB3,000,000 | 100 | – | (1) |
| Wenzhou D-phone Electronic Communication Technology Co., Ltd.* (溫州迪信通電子通信技術有限公司) | RMB2,000,000 | 100 | – | (1) |
| Henan D-phone Trading Co., Ltd.* (河南迪信通商貿有限公司) | RMB10,000,000 | 60 | – | (1) |
| Wuhan Yitongda Communication Equipment Co., Ltd.* (武漢易通達通訊器材有限公司) | RMB2,000,000 | – | 100 | (1) |
| Yunnan D-phone Electronic Communication Technology Co., Ltd.* (雲南迪信通電子通信技術有限公司) | RMB20,000,000 | – | 100 | (1) |
| Beijing Tailongji Trading Co., Ltd.* (北京市泰龍吉貿易有限公司) | RMB50,000,000 | 100 | – | (2) |
| Shenzhen Hua'aotong Electronic Technology Co., Ltd.* (深圳市華奧通電子有限公司) | RMB20,000,000 | – | 100 | (3) |
| Ningbo Hi-tech District Shunjixin Technology Co., Ltd.* (寧波高新區順吉信科技有限公司) | RMB10,000,000 | 100 | – | (1) |
| Beijing Dixin Alliance Technology Co., Ltd.* (北京迪信雲聚科技有限公司) | RMB10,000,000 | 80 | – | (1) |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

| Name of the principal subsidiaries | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|
| Digitone Mobiles Private Limited | INR250,000 | – | 60 | (1) |
| Guangan Zhuopin Era Technology Co., Ltd.* (廣安卓品時代科技有公司) | RMB25,000,000 | 51 | – | (2) |
| Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd.* (北京網聚迪信優品互聯網科技有限公司) | RMB5,000,000 | 80 | – | (2) |
| Beijing Digital (Spain), S.L | EUR6,000,000 | 80 | – | (1) |
| Dixin Simaier Technology (Guangdong) Co., Ltd* (迪信斯麥爾科技(廣東)有限公司) | RMB200,000,000 | 100 | – | (1) |

*Notes:*

*(1) Sale of mobile telecommunications devices and accessories and the provision of related services*

*(2) Online sales of mobile telecommunications devices and accessories*

*(3) Research and development and manufacture of telecommunications devices and accessories*

** English translations of names for identification purposes only. The companies were registered as domestic companies with limited liability under the laws of the PRC.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

There was no subsidiary that had a non-controlling interest that was material to the Group during the year.

## 2.1 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.

## 2.1 BASIS OF PREPARATION *(Continued)*

### Basis of consolidation *(Continued)*

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.

## 2.2 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 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

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 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").

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) (*Continued)*

*Classification and measurement (Continued)*

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

| | | IAS 39 measurement | | | | | IFRS 9 measurement | |
|---|---|---|---|---|---|---|---|---|
| | *Notes* | Category RMB'000 | Amount RMB'000 | Reclassification RMB'000 | Remeasurement RMB'000 | ECL RMB'000 | Amount RMB'000 | Category RMB'000 |
| **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[3] | 1,984,128 | – | – | 1,677 | 1,985,805 | AC[4] |
| Bills receivable | | L&R[3] | 2,678 | – | – | – | 2,678 | FVOCI[1] |
| Financial assets included in prepayments, other receivables and other assets | | 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*

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) (*Continued)*

*Classification and measurement (Continued)*

*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 notes 7 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3 to the financial statements.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) (*Continued*)

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) |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) (*Continued)*

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<br>RMB'000 | Previous IFRS<br>RMB'000 | Increase/ (decrease)<br>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 | – |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) *(Continued)*

Consolidated statement of financial position as at 31 December 2018:

| | Amounts prepared under | | |
|---|---|---|---|
| | IFRS 15 RMB'000 | Previous IFRS RMB'000 | Increase/ (decrease) 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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(e) IFRIC 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.

## 3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the financial statements:

| | |
|---|---|
| Amendments to IFRS 3 | *Definition of a Business*[2] |
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to IFRS 10 and IAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 16 | *Leases*[1] |
| IFRS 17 | *Insurance Contracts*[3] |
| Amendments to IAS 1 and IAS 8 | *Definition of Material*[2] |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| IFRIC 23 | *Uncertainty over Income Tax Treatments*[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1] |

1 *Effective for annual periods beginning on or after 1 January 2019*
2 *Effective for annual periods beginning on or after 1 January 2020*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *No mandatory effective date yet determined but available for adoption*

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

## 3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB610,187,000 and lease liabilities of RMB610,187,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

## 3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations and goodwill *(Continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognised such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The annual depreciation of property, plant and equipment is as follows:

| | |
|---|---|
| Buildings | 2.5% to 5% |
| Motor vehicles | 10% to 20% |
| Office equipment and others | 20% to 33⅓% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

*Software copyrights*

Purchased software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to six years.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

### Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

*Initial recognition and measurement (Continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at amortised cost (debt instruments)*

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

*Financial assets designated at fair value through other comprehensive income (debt investments)*

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) *(Continued)*

*Available-for-sale financial investments (Continued)*

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

### Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) *(Continued)*

*General approach (Continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*Simplified approach*

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) *(Continued)*

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank loans and amounts due to related parties.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

### Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost comprising land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period and net realisable value.

Properties under development are classified as current assets unless those will not be realised in one normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

### Completed properties held for sale

Completed properties held for sale are stated in the statement of financial position at the lower of cost and net realisable value. Cost is determined by an apportionment of the total costs of land and buildings attributable to the unsold properties. Net realisable value takes into account the price ultimately expected to be realised, less estimated costs to be incurred in selling the properties.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax *(Continued)*

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

### Revenue recognition (applicable from 1 January 2018)

*Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition (applicable from 1 January 2018) *(Continued)*

*Revenue from contracts with customers (Continued)*

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of mobile telecommunications devices and accessories is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Services income from mobile carriers

Revenue from the provision of services to mobile carriers is recognised over time, using an output method to measure progress towards complete satisfaction of the service according to the underlying contract terms. The output method recognises revenue based on direct measurements of the value to the mobile carriers of the services transferred to date relative to the remaining services promised under the contract.

*Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms.

*Other income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods and properties, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) promotion income from mobile carriers, when the Group is entitled to receive according to the underlying contract terms;

(c) income from the rendering of services, in the period in which the services are rendered;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

### Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency. The functional currency of the Group's subsidiaries is RMB and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

### Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis according to the expected entitlement earned up to the reporting date for each relevant supplier contract. Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

*(i) Useful lives of property, plant and equipment*

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

*(ii) Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB72,646,000 (2017: RMB57,476,000). Further details are given in note 17 to the financial statements.

*(iii) Provision for expected credit losses on trade receivables and contract assets*

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. 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).

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty *(Continued)*

*(iii) Provision for expected credit losses on trade receivables and contract assets (Continued)*

The provision matrix is initially based on the Group's historical observed default rates. The Group 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. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 27 to the financial statements.

*(iv) Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for sale of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*(v) Net realisable value of inventories*

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

*(vi) Deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that tax profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 22 to the financial statements.

## 6. 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 |

## 6. OPERATING SEGMENT INFORMATION *(Continued)*

### 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.

## 7. 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** |
| 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** |

## 7. REVENUE, OTHER INCOME AND GAINS *(Continued)*

### Disaggregated revenue information *(Continued)*

| | 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 a subsidiary | **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 local PRC 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.*

## 8. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Cost of inventories sold and services provided | **13,042,383** | 13,761,990 |
| Depreciation *(note 16)* | **58,111** | 65,531 |
| Amortisation of intangible assets *(note 18)* | **1,076** | 525 |
| Lease payments under operating leases | **342,761** | 364,895 |
| Auditors' remuneration | **4,645** | 4,543 |
| Employee benefit expense (including directors' remuneration as set out in note 10): | | |
| Wages and salaries | **421,021** | 461,812 |
| Pension scheme contributions | **62,905** | 65,770 |
| | **483,926** | 527,582 |
| Impairment of goodwill *(note 17)* | **22,041** | – |
| Impairment of available-for-sale investments *(note 21)* | **–** | 2,230 |
| Impairment of financial assets | | |
| Impairment of trade receivables *(note 27)* | **2,825** | 12,692 |
| Impairment of amounts due from related parties | **236** | 1,510 |
| Impairment of financial assets included in prepayments, other receivables and other assets *(note 28)* | **24,449** | 2,386 |
| | **27,510** | 16,588 |
| Write-down of inventories to net realisable value *(note 24)* | **22,665** | 21,063 |
| Loss on disposal of a subsidiary | **1,400** | – |
| Loss on disposal of an investment of a joint venture | **129** | – |
| Loss on disposal of items of property, plant and equipment | **1,817** | 1,676 |

## 9. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Interest on bank loans, overdrafts and other loans (including convertible bonds) | **192,106** | 182,741 |

## 10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors', Supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Remuneration: | | |
| Salaries, allowances and benefits in kind | **1,526** | 1,782 |
| Pension scheme contributions | **173** | 197 |
| | **1,699** | 1,979 |

### (a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

| | | **Year ended 31 December** | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | **RMB'000** | RMB'000 |
| Mr. Lv Tingjie | | **60** | 61 |
| Mr. Vincent Man Choi, Li | *(i)* | **95** | 229 |
| Mr. Bian Yongzhuang | | **60** | 61 |
| Mr. Zhang Senquan | *(i)* | **159** | – |
| | | **374** | 351 |

There were no other emoluments payable to the independent non-executive directors during year.

*Note: (i) Mr. Vincent Man Choi, Li resigned on 7 June 2018 and was replaced by Mr. Zhang Senquan as an independent non-executive director.*

## 10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

### (b) Executive directors, non-executive directors, supervisors and the chief executive

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2018** | | | | |
| Executive directors: | | | | |
| Mr. Liu Songshan | **–** | **212** | **37** | **249** |
| Mr. Liu Donghai | **–** | **284** | **49** | **333** |
| Ms. Liu Wencui | **–** | **323** | **49** | **372** |
| Mr. Liu Yajun | **–** | **81** | **37** | **118** |
| | **–** | **900** | **172** | **1,072** |
| Non-executive directors: | | | | |
| Ms. Zhang Yunfei *(i)* | **–** | **25** | **–** | **25** |
| Mr. Qi Xiangdong | **–** | **60** | **–** | **60** |
| Ms. Xin Xin *(i)* | **–** | **30** | **–** | **30** |
| | **–** | **115** | **–** | **115** |
| Supervisors: | | | | |
| Mr. Hu Yuzhong | **–** | **40** | **–** | **40** |
| Mr. Li Wanlin | **–** | **40** | **–** | **40** |
| Ms. Wei Shuhui | **–** | **57** | **1** | **58** |
| | **–** | **137** | **1** | **138** |
| | – | **1,152** | **173** | **1,325** |
| **2017** | | | | |
| Executive directors: | | | | |
| Mr. Liu Songshan | – | 234 | 42 | 276 |
| Mr. Liu Donghai | – | 251 | 42 | 293 |
| Ms. Liu Wencui | – | 289 | 42 | 331 |
| Ms. Liu Hua | – | 101 | 24 | 125 |
| Mr. Liu Yajun | – | 251 | 42 | 293 |
| | – | 1,126 | 192 | 1,318 |
| Non-executive directors: | | | | |
| Ms. Zhang Yunfei | – | 28 | – | 28 |
| Mr. Qi Xiangdong | – | 61 | – | 61 |
| | – | 89 | – | 89 |
| Supervisors: | | | | |
| Mr. Hu Yuzhong | – | 40 | – | 40 |
| Mr. Li Wanlin | – | 40 | – | 40 |
| Ms. Wei Shuhui | – | 65 | 1 | 66 |
| Ms. Xiao Hong | – | 71 | 4 | 75 |
| | – | 216 | 5 | 221 |
| | – | 1,431 | 197 | 1,628 |

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

*Note:*

*(i)* *Ms. Zhang Yunfei resigned on 7 June 2018 and was replaced by Ms. Xin Xin as a non-executive director.*

## 11. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the year is as follows:

| | Number of employees Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Directors, supervisors and the chief executive | **–** | – |
| Non-director, non-supervisor and non-chief executive employees | **5** | 5 |
| | **5** | 5 |

Details of directors' remuneration are set out in note 10 above.

Details of the remuneration of the above highest paid employees who are neither a director, a supervisor nor chief executive of the Group are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **2,740** | 2,287 |
| Pension scheme contributions | **507** | 337 |
| | **3,247** | 2,624 |

The number of non-director, non-supervisor and non-chief executive highest paid individuals whose remuneration fell within the following bands is as follows:

| | Number of employees Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Nil to HK$1,000,000 | **4** | 5 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| | **5** | 5 |

## 12. 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 *(note 22)* | **(7,296)** | 2,360 |
| Total tax charge for the year from continuing operations | **78,633** | 77,940 |
| Total tax charge for the year from a discontinued operation | **–** | – |
| | **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 a discontinued operation | **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 |

## 12. INCOME TAX EXPENSE *(Continued)*

| | 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 a discontinued operation at the effective rate | **–** | – |

The share of tax attributable to associates and joint ventures amounting 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.

## 13. DISCONTINUED OPERATION

On 31 December 2018, the Company entered into an equity transfer agreement to dispose of 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 property 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 year 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 |

## 13. DISCONTINUED OPERATION *(Continued)*

The net cash flows incurred by Shenzhen Digitone are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Operating activities | **(18,276)** | 38,129 |
| Investing activities | **(26)** | (19) |
| Net cash inflow/(outflow) | **(18,302)** | 38,110 |

| | 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 |
| Profit attributable to ordinary equity holders of the parent from the discontinued operation (RMB'000) | **12,554** | 240 |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculations | **666,667,000** | 666,667,000 |

## 14. DIVIDENDS

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

## 15. 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 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| At 31 December 2017 and at 1 January 2018: | | | | | |
| Cost | 85,757 | 416,117 | 75,353 | 41,576 | 618,803 |
| Accumulated depreciation | (26,534) | (381,376) | (55,886) | (22,857) | (486,653) |
| Net carrying amount | 59,223 | 34,741 | 19,467 | 18,719 | 132,150 |
| At 1 January 2018, net of accumulated depreciation | 59,223 | 34,741 | 19,467 | 18,719 | 132,150 |
| Additions | 1,751 | 52,218 | 10,978 | 2,945 | 67,892 |
| Acquisition of subsidiaries | – | – | 34 | – | 34 |
| Disposals | – | – | (15,852) | (5,545) | (21,397) |
| Disposal of subsidiaries | (5,780) | (150) | (793) | (34) | (6,757) |
| Depreciation provided during the year | (4,606) | (41,352) | (8,334) | (3,830) | (58,122) |
| Depreciation transferred | – | – | 12,913 | 4,031 | 16,944 |
| At 31 December 2018, net of accumulated depreciation | 50,588 | 45,457 | 18,413 | 16,286 | 130,744 |
| At 31 December 2018: | | | | | |
| Cost | 79,627 | 468,185 | 66,690 | 38,422 | 652,924 |
| Accumulated depreciation | (29,039) | (422,728) | (48,277) | (22,136) | (522,180) |
| Net carrying amount | 50,588 | 45,457 | 18,413 | 16,286 | 130,744 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| 31 December 2017 | | | | | |
| At 31 December 2016 and at 1 January 2017: | | | | | |
| Cost | 85,412 | 384,165 | 79,105 | 42,197 | 590,879 |
| Accumulated depreciation | (20,915) | (335,849) | (55,656) | (20,921) | (433,341) |
| Net carrying amount | 64,497 | 48,316 | 23,449 | 21,276 | 157,538 |
| At 1 January 2017, net of accumulated depreciation | 64,497 | 48,316 | 23,449 | 21,276 | 157,538 |
| Additions | 617 | 31,952 | 6,574 | 3,210 | 42,353 |
| Disposals | (272) | – | (10,326) | (3,831) | (14,429) |
| Depreciation provided during the year | (5,725) | (45,527) | (9,616) | (4,731) | (65,599) |
| Depreciation transferred | 106 | – | 9,386 | 2,795 | 12,287 |
| At 31 December 2017, net of accumulated depreciation | 59,223 | 34,741 | 19,467 | 18,719 | 132,150 |
| At 31 December 2017: | | | | | |
| Cost | 85,757 | 416,117 | 75,353 | 41,576 | 618,803 |
| Accumulated depreciation | (26,534) | (381,376) | (55,886) | (22,857) | (486,653) |
| Net carrying amount | 59,223 | 34,741 | 19,467 | 18,719 | 132,150 |

As at 31 December 2018, the Group has not obtained title certificates for certain of its buildings with an aggregate net carrying amount of approximately RMB12,569,000 (2017: RMB13,274,000). The directors were of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018.

## 17. GOODWILL

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| At 1 January: | | |
| Cost | **57,476** | 57,476 |
| Accumulated impairment | **–** | – |
| Net carrying amount | **57,476** | 57,476 |
| Cost at 1 January, net of accumulated impairment | **57,476** | 57,476 |
| Acquisition of subsidiaries (note 36) | **37,385** | – |
| Disposal of subsidiaries (note 37) | **(174)** | – |
| Impairment during the year | **(22,041)** | – |
| Cost and net carrying amount at 31 December | **72,646** | 57,476 |
| At 31 December: | | |
| Cost | **94,687** | 57,476 |
| Accumulated impairment | **(22,041)** | – |
| Net carrying amount | **72,646** | 57,476 |

## 17. GOODWILL *(Continued)*

### Impairment testing of goodwill

The carrying amounts of goodwill allocated to each of the cash-generating units which are subsidiaries of the Company are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Changsha 958598 Electronic Communication Equipment Co., Ltd. | **490** | 490 |
| Shenyang Tongliansihai Electronic Communication Technology Co., Ltd. | **–** | 381 |
| Sichuan Yijialong Communication Technology Chain Co., Ltd. | **34,650** | 34,650 |
| Luoyang Dphone Electronic Communication Technology Co., Ltd. | **5,739** | 5,739 |
| Shangqiu Dphone Electronic Communication Technology Co., Ltd. | **1,729** | 1,729 |
| Xiamen Dphone Electronic Communication Technology Co., Ltd. | **–** | 495 |
| Yunnan Dphone Electronic Communication Technology Co., Ltd. | **7,792** | 7,792 |
| Wuhan Yitongda Communication Equipment Co., Ltd. | **1,235** | 1,235 |
| Xi'an Dphone Electronic Communication Technology Co., Ltd. | **3,790** | 3,790 |
| Beijing Jinyitongda Communication Equipment Maintenance Co., Ltd. | **351** | 351 |
| Xinyang Beixin Science Trading Co., Ltd. | **650** | 650 |
| Digitone Mobiles Private Limited | **4,527** | – |
| Guangan Zhuopin Era Technology Co., Ltd. | **10,585** | – |
| Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd. | **1,108** | – |
| Yunfu SCI Commercial Properties Co., Limited | **–** | 174 |
| | **72,646** | 57,476 |

## 17. GOODWILL *(Continued)*

### Impairment testing of goodwill *(Continued)*

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the directors which cover a period of five years. At 31 December 2018, the pre-tax discount rate applied to the cash flow projections was 22% to 28% (2017: 22%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period was 3% as at 31 December 2018 (2017: 3%). The directors believe that this growth rate is conservative and reliable for the purpose of impairment testing.

Assumptions were used in the value in use calculation of the cash-generating units noted above for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based on in the preparation of cash flow projections to undertake impairment testing of goodwill:

Revenue: the bases used to determine the future earnings potential are historical sales and average and the expected growth rates of the market in the PRC and India.

Gross margins: the gross margins are based on the average gross margins achieved in the past three years and the expected trend in the future.

Expenses: the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level.

Discount rates: the discount rates used are before tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for the units, regard has been given to the applicable borrowing rate of the Group during the year.

The values assigned to the key assumptions on market development, gross margins, expenses and discount rates are consistent with external information sources.

## 18. OTHER INTANGIBLE ASSETS

| | Software copyrights RMB'000 | Distribution network RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2018** | | | |
| Cost at 1 January 2018, net of accumulated amortisation | **328** | **–** | **328** |
| Additions | **819** | **–** | **819** |
| Acquisition of subsidiaries (note 36) | **–** | **7,425** | **7,425** |
| Disposal of subsidiaries (note 37) | **(4)** | **–** | **(4)** |
| Amortisation provided during the year | **(358)** | **(718)** | **(1,076)** |
| At 31 December 2018 | **785** | **6,707** | **7,492** |
| At 31 December 2018: | | | |
| Cost | **5,321** | **7,425** | **12,746** |
| Accumulated amortisation | **(4,536)** | **(718)** | **(5,254)** |
| Net carrying amount | **785** | **6,707** | **7,492** |
| 31 December 2017 | | | |
| Cost at 1 January 2017, net of accumulated amortisation | 853 | – | 853 |
| Amortisation provided during the year | (525) | – | (525) |
| At 31 December 2017 | 328 | – | 328 |
| At 31 December 2017: | | | |
| Cost | 4,519 | – | 4,519 |
| Accumulated amortisation | (4,191) | – | (4,191) |
| Net carrying amount | 328 | – | 328 |

## 19. INVESTMENTS IN JOINT VENTURES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Share of net assets | **70,594** | 73,121 |
| Goodwill | **3,719** | 3,719 |
| | **74,313** | 76,840 |

Particulars of the Group's joint ventures are as follows

| | | | Percentage of | | | |
|---|---|---|---|---|---|---|
| Name | Particulars of issued shares held | Place of registration and business | Ownership interest | Voting power | Profit sharing | Principal activities |
| Hollard-D. Phone (Beijing) Technology Development Co., Ltd.* | Registered capital of RMB1 each | PRC/Mainland China | 50 | 50 | 50 | Technology research and consulting service |
| Guangzhou Zhongqi Energy Technology Co., Ltd.* | Registered capital of RMB1 each | PRC/Mainland China | 46 | 46 | 46 | Sale of mobile telecommunications devices and accessories |
| Shenzhen Chuanshi Electronic Technology Ltd.* | Registered capital of RMB1 each | PRC/Mainland China | 50 | 50 | 50 | Equity investment and investment consultation |
| Yunnan Dphone Investment Co., Ltd.* | Registered capital of RMB1 each | PRC/Mainland China | 51 | 51 | 26 | Development of and training on software |

* *English translations of names for identification purposes only*

The above investments are directly held by the Company except for Yunnan Dphone Investment Co., Ltd., which is held by a 51%-owned subsidiary of the Company.

## 19. INVESTMENTS IN JOINT VENTURES *(Continued)*

The following table illustrates the financial information of the Group's joint ventures:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Share of the joint ventures' (loss)/profit for the year | **(4,253)** | 4,934 |
| Share of the joint ventures' other comprehensive income | **151** | (1,075) |
| Share of the joint ventures' total comprehensive income | **(4,102)** | 3,859 |

## 20. INVESTMENTS IN ASSOCIATES

| | **As at 31 December** | |
|---|---|---|
| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
| Share of net assets | **37,114** | 5,890 |
| Goodwill on acquisition | **–** | 4,201 |
| | **37,114** | 10,091 |

Particulars of the Group's associates are as follows:

| Name | Particulars of issued shares held | Place of registration and business | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Shenzhen Dixin Nuclear Communications Co., Ltd.* | Ordinary shares | PRC/Mainland China | 20 | Wholesale and retail of communication equipment |
| Beijing Xinyi Technology Co., Ltd.* | Ordinary shares | PRC/Mainland China | 49 | Providing software development and training service |
| Shanghai Diju Information Technology Co., Ltd.* | Ordinary shares | PRC/Mainland China | 45 | Technology research and consulting service |
| Comservice Commercial Factoring Co., Ltd.* | Ordinary shares | PRC/Mainland China | 46 | Providing trade finance and credit investigation and evaluation services |
| Shenzhen Aizuji Technology Co., Ltd.* | Ordinary shares | PRC/Mainland China | 20 | Providing leasing and selling service of intelligent devices |

* *English translations of names for identification purposes only*

## 20. INVESTMENTS IN ASSOCIATES *(Continued)*

The Group's shareholdings in the associates all comprise equity shares held by the Company, except for Shanghai Diju Information Technology Co., Ltd., and Comservice Commercial Factoring Co., Ltd ., the shareholdings in which are held through subsidiaries of the Company.

The following table illustrates the financial information of the Group's associates:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Share of the associates' profit/(loss) for the year | **894** | (3,286) |

## 21. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Equity investments designated at fair value through other comprehensive income** | | |
| Unlisted equity investments, at fair value | | |
| Beijing Chuanmall Huilian Technology Co., Ltd.* | **11** | – |
| Beijing Rocedar Technology Ltd.* | **5,968** | – |
| Beijing Feiying Technology Co., Ltd* | **5,734** | – |
| Shanghai Cappuccino Electronic Technology Co., Ltd.* | **30,000** | – |
| | **41,713** | – |
| **Available-for-sale investments** | | |
| Unlisted equity investments, at cost | **–** | 10,845 |
| Unlisted debt investments, at fair value | **–** | 210,000 |
| | **–** | 220,845 |
| Analysed as: | | |
| Current | **–** | 210,000 |
| Non-current | **41,713** | 10,845 |
| | **41,713** | 220,845 |

* *English translations of names for identification purposes only. The companies were registered as domestic companies with limited liability under the laws of the PRC.*

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

## 21. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

As at 31 December 2017, certain unlisted equity investments with a carrying amount of RMB10,845,000 were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

Movements in the provision for impairment of available-for-sale investments are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| At 1 January | **–** | – |
| Provision for impairment of available-for-sale investments *(note 8)* | **–** | 2,230 |
| At 31 December | **–** | 2,230 |

## 22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

| | **Deductible temporary differences** RMB'000 | **Unrealised profit** RMB'000 | **Total** RMB'000 |
|---|---|---|---|
| Gross deferred tax assets at 1 January 2017 | **31,276** | **6,708** | **37,984** |
| Deferred tax credited/(charged) to profit or loss during the year | **2,794** | **(5,154)** | **(2,360)** |
| Gross deferred tax assets at 31 December 2017 and 1 January 2018 | **34,070** | **1,554** | **35,624** |
| Deferred tax credited to profit or loss during the year | **5,616** | **1,680** | **7,296** |
| At 31 December 2018 | **39,686** | **3,234** | **42,920** |

## 22. DEFERRED TAX *(Continued)*

### Deferred tax liabilities

| | Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000 | Fair value adjustments arising from acquisition of subsidiaries RMB'000 | Total RMB'000 |
|---|---|---|---|
| Gross deferred tax liabilities at 31 December 2017 | – | – | – |
| Effect of adoption of IFRS 9 | **(316)** | – | **(316)** |
| Gross deferred tax liabilities 1 January 2018 (restated) | **(316)** | – | **(316)** |
| Deferred tax charged to other comprehensive income during the year | **533** | **1,856** | **2,389** |
| Exchange differences | – | **(45)** | **(45)** |
| At 31 December 2018 | **217** | **1,811** | **2,028** |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | At 31 December 2018 RMB'000 |
|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **40,892** |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | – |

Deferred tax assets in respect of tax losses and temporary differences amounting to RMB6,572,000 (2017: RMB12,843,000) have not been recognised, as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

## 23. LOAN RECEIVABLES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Loan receivables | **57,112** | 354,217 |
| Including: | | |
| Current portion | **40,640** | 300,000 |
| Non-current portion | **16,472** | 54,217 |

As at 31 December 2018, the non-current portion of loan receivables comprises:

Loans of USD2,400,000 provided to Spice Online Private Limited, a third party, which are unsecured and have no current fixed terms of repayment.

As at 31 December 2018, the current portion of loan receivables comprises:

A loan of RMB40,640,000 provided to Henan Huilin Human Resources Service Co., Ltd, a third party, which is unsecured, bears interest at a fixed interest rate of 9.00% per annum and is repayable in 2019.

## 24. INVENTORIES

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Merchandise for resale | **2,563,682** | 2,318,662 |
| Consumable supplies | **770** | – |
| | **2,564,452** | 2,318,662 |
| Less: provision against inventories | **(22,665)** | (21,063) |
| | **2,541,787** | 2,297,599 |

## 25. PROPERTIES UNDER DEVELOPMENT

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| At beginning of year | **82,121** | 316,156 |
| Additions | **159** | 97,717 |
| Transferred to completed properties held for sale | **(69,752)** | (331,752) |
| Disposal of subsidiaries | **(12,528)** | – |
| At end of year | **–** | 82,121 |

## 26. COMPLETED PROPERTIES HELD FOR SALE

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| At beginning of year | **119,594** | – |
| Effect of adoption of IFRS 15 | **584** | – |
| At beginning of year (restated) | **120,178** | – |
| Transferred from properties under development | **69,752** | 331,752 |
| Transferred to cost of properties sold | **(85,004)** | (212,158) |
| Disposal of subsidiaries | **(104,926)** | – |
| At end of year | **–** | 119,594 |

## 27. 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 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) were pledged to secure other loans, as set out in note 33 to the financial statements.

## 27. TRADE AND BILLS RECEIVABLES *(Continued)*

### Endorsed bills receivable

The Group endorsed certain bills receivable (the "Endorsement") accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers at 31 December 2018 with an aggregate carrying amount of RMB90,588,000 (2017: RMB48,461,000). The Derecognised Bills had maturities ranging from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase the Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are immaterial.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

An ageing analysis of the trade 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 |

## 27. TRADE AND BILLS RECEIVABLES *(Continued)*

The movements in the loss allowance for impairment of trade receivables are as follows:

| | As at 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| At beginning of year | **103,864** | 93,318 |
| Effect of adoption of IFRS 9 | **1,677** | – |
| At beginning of year (restated) | **105,541** | 93,318 |
| Impairment losses *(note 8)* | **2,825** | 12,692 |
| Amount written off as uncollectible | **(299)** | (2,146) |
| At end of year | **108,067** | 103,864 |

### Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

*As at 31 December 2018*

| | | Past due | | | | |
|---|---|---|---|---|---|---|
| | Current | Less than 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
| Expected credit loss rate | 3.98% | 4.01% | 11.43% | 15.82% | 32.73% | 4.74% |
| Gross carrying amount (RMB'000) | 1,843,400 | 316,285 | 45,464 | 42,047 | 30,819 | 2,278,015 |
| Expected credit losses (RMB'000) | 73,455 | 12,679 | 5,196 | 6,650 | 10,087 | 108,067 |

## 27. TRADE AND BILLS RECEIVABLES *(Continued)*

### Impairment under IAS 39 for the year ended 31 December 2017

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

| | As at 31 December 2017 RMB'000 |
|---|---|
| Neither past due nor impaired | 1,604,081 |
| Past due but not impaired: | |
| Less than 90 days | 294,632 |
| 91 to 180 days | 40,572 |
| 181 to 365 days | 34,588 |
| Over 1 year | 10,255 |
| | 1,984,128 |

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

## 28. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | **As at 31 December** | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Prepayments | **1,130,937** | 1,129,282 |
| Deposits and other receivables | **227,815** | 237,692 |
| | **1,358,752** | 1,366,974 |
| Less: impairment allowance | **(27,309)** | (9,209) |
| | **1,331,443** | 1,357,765 |

## 28. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(Continued)*

The movements in the loss allowance for impairment of other receivables are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| At beginning of year | **9,209** | 6,823 |
| Impairment losses *(note 8)* | **24,449** | 2,386 |
| Amount written off as uncollectible | **(6,349)** | – |
| At end of year | **27,309** | 9,209 |

## 29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Cash and bank balances | **708,548** | 614,879 |
| Time deposits | **660,251** | 953,421 |
| | **1,368,799** | 1,568,300 |
| Less: pledged time deposits: | | |
| Pledged for bank borrowings | **611,208** | 931,730 |
| Pledged for bank acceptance notes | **45,800** | 21,691 |
| Other pledged deposits | **3,243** | – |
| Cash and cash equivalents, denominated in RMB | **708,548** | 614,879 |

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 30. BALANCES WITH CONTROLLING SHAREHOLDER AND RELATED PARTIES

The amounts due from/to the controlling shareholder and related parties of the Group and subsidiaries of the Company are trade in nature, interest-free and repayable on demand.

## 31. 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.

## 32. OTHER PAYABLES AND ACCRUALS

| | | As at 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | **RMB'000** | RMB'000 |
| Payroll and welfare payable | | **31,604** | 32,606 |
| Contract liabilities | *(a)* | **130,737** | 193,324 |
| Accrued expenses | | **8,677** | 10,126 |
| Other payables | *(b)* | **137,154** | 109,409 |
| Bond interest payables | | **33,750** | 33,750 |
| | | **341,922** | 379,215 |

## 32. OTHER PAYABLES AND ACCRUALS *(Continued)*

*Notes:*

*(a)* *Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:*

| | As at 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| *Short-term advances received from customers* | | |
| *Sale of goods* | ***130,737*** | *193,324* |
| *Total contract liabilities* | ***130,737*** | *193,324* |

*(b)* *Other payables are non-interest-bearing and have an average term of three months.*

## 33. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | | 2018 Maturity | 2018 RMB'000 | 2017 Maturity | 2017 RMB'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Bank loans: | | | | | |
| Unsecured, repayable within one year | *(a)* | **2019** | **950,500** | 2018 | 1,083,000 |
| Secured, repayable within one year | *(b)* | **2019** | **1,411,990** | 2018 | 2,064,184 |
| Corporate bond: | | | | | |
| Current portion | *(c)* | **2019** | **598,013** | 2018 | – |
| Other loans: | | | | | |
| Unsecured, repayable within one year | *(d)* | **2019** | **71,551** | 2018 | – |
| Secured, repayable within one year | *(e)* | **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 |

## 33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

*Notes:*

*(a) The bank loans bear interest at rates ranging from 3.40% to 6.90% (2017: 3.50% to 7.90%) per annum.*

*(b) The Group's bank loans are secured by pledged deposits, which had an aggregate carrying value at the end of the reporting period of RMB611,208,000 (2017: RMB931,730,000).*

*(c) On 5 April 2017, the Company issued a corporate bond with a maturity of three years in an aggregate amount of RMB600,000,000, which bears interest at 7.50% per annum. The interest is payable annually in arrears and the maturity date is 5 April 2020. The terms of the bond were attached with the Company's option to adjust the coupon rate and the option for investors to sell back at the end of the second year.*

*(d) The unsecured other loans bear interest at rates ranging from 8.00% to 12.24% per annum.*

*(e) The Group entered into two trade receivable factoring arrangements and transferred certain trade receivables to financial institutions. The secured other loans bear interest at rate ranging from 10.5% to 11% and are secured by trade receivables amounts to RMB38,573,000.*

## 34. SHARE CAPITAL

### Shares

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Issued and fully paid: | | |
| 667,000,000 (2017: 667,000,000) ordinary shares | **666,667** | 666,667 |

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital RMB'000 |
|---|---|---|
| At 31 December 2017 and 2018 | **667,000,000** | **666,667** |

## 35. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

### Statutory reserve funds

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserve funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of the PRC domestic companies is required to transfer 10% of their profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of its registered capital of these companies. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

### Distributable reserves

For dividend purposes, the amounts which the PRC companies can legally distribute by way of a dividend are determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

In accordance with the Company Law of the PRC, profit after tax of the PRC companies can be distributed as dividends after the appropriation to the statutory reserve funds as set out above.

## 36. BUSINESS COMBINATIONS

### Acquisition of Digitone Mobiles Private Limited

On 9 March 2018, New Idea Investment Pte Ltd, a subsidiary of the Company, acquired a 60% interest in Digitone Mobiles Private Limited ("Digitone"), an unlisted company based in India that specialises in the sale of mobile telecommunications devices and accessories and the provision of related services. The acquisition was undertaken to further develop the business in India. The purchase consideration of USD2,500,000, equivalent to RMB15,863,000 for the acquisition was in the form of cash.

The fair values of the identifiable assets and liabilities of Digitone during the period as at the date of acquisition were as follows:

| | **Fair value recognised on acquisition RMB'000** |
|---|---|
| Cash and cash equivalents | 14 |
| Prepayments, other receivables and other assets | 335 |
| Property, plant and equipment | 5 |
| Other intangible assets | 3,625 |
| Trade and bills payables | (187) |
| Other payables and accruals | (2,583) |
| Deferred tax liabilities | (906) |
| Interest-bearing bonds | (16,684) |
| Total identifiable net liabilities at fair values | (16,381) |
| Non-controlling interests | 6,552 |
| Total net liabilities acquired | (9,829) |
| Goodwill on acquisition | 25,692 |
| | 15,863 |
| Satisfied by: | |
| Cash | 15,863 |

The fair values of the acquired other receivables as at the date of acquisition approximate to their gross contractual amounts. None of these receivables are expected to be uncollectible.

## 36. BUSINESS COMBINATIONS *(Continued)*

### Acquisition of Guangan Zhuopin Era Technology Co., Ltd.

On 4 December 2018, the Company acquired a 51% interest in Guangan Zhuopin Era Technology Co., Ltd. ("Guangan Zhuopin"), an unlisted company based in Sichuan Province that specialises in the online sales of mobile telecommunications devices and accessories. The acquisition was made as part of the Group's strategy to expand its market share of mobile telecommunications devices and accessories. The purchase consideration of RMB12,750,000 for the acquisition was in the form of cash.

The fair values of the identifiable assets and liabilities of Guangzhou Zhuopin during the period as at the date of acquisition were as follows:

| | **Fair value recognised on acquisition RMB'000** |
|---|---:|
| Cash and cash equivalents | 1,958 |
| Trade and bills receivables | 10,545 |
| Prepayments, other receivables and other assets | 13,161 |
| Inventories | 1,115 |
| Property, plant and equipment | 23 |
| Other intangible assets | 2,800 |
| | |
| Trade and bills payables | (12,708) |
| Other payables and accruals | (158) |
| Contract liabilities | (11,790) |
| Deferred tax liabilities | (700) |
| | |
| Total identifiable net assets at fair values | 4,246 |
| Non-controlling interests | (2,081) |
| | |
| Total net assets acquired | 2,165 |
| Goodwill on acquisition | 10,585 |
| | |
| | 12,750 |
| | |
| Satisfied by: | |
| Cash | 12,000 |
| Cash consideration unpaid | 750 |
| | |
| | 12,750 |

The fair values of the acquired trade receivables and other receivables as at the date of acquisition approximate to their gross contractual amounts. None of these receivables are expected to be uncollectible.

## 36. BUSINESS COMBINATIONS *(Continued)*

### Acquisition of Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd.

On 13 November 2018, the Company acquired an 80% interest in Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd. ("Dixin Youpin"), an unlisted company based in Beijing that specialises in the online sales of mobile telecommunications devices and accessories. The acquisition was made as part of the Group's strategy to expand its market share of mobile telecommunications devices and accessories. The purchase consideration of RMB4,000,000 for the acquisition was in the form of cash.

The fair values of the identifiable assets and liabilities of Dixin Youpin during the period as at the date of acquisition were as follows:

| | Fair value recognised on acquisition RMB'000 |
|---|---|
| Cash and cash equivalents | 296 |
| Prepayments, other receivables and other assets | 11,058 |
| Inventories | 1,942 |
| Property, plant and equipment | 2 |
| Other intangible assets | 1,000 |
| Trade and bills payables | (1,015) |
| Other payables and accruals | (5,298) |
| Contract liabilities | (4,121) |
| Deferred tax liabilities | (250) |
| Total identifiable net assets at fair values | 3,614 |
| Non-controlling interests | (722) |
| Total net assets acquired | 2,892 |
| Goodwill on acquisition | 1,108 |
| | 4,000 |
| Satisfied by: | |
| Cash | – |
| Cash consideration unpaid | 4,000 |
| | 4,000 |

The fair values of the acquired other receivables as at the date of acquisition approximate to their gross contractual amounts. None of these receivables are expected to be uncollectible.

None of the goodwill recognised is expected to be deductible for income tax purposes.

## 36. BUSINESS COMBINATIONS *(Continued)*

An analysis of the cash flows in respect of the acquisitions of subsidiaries is as follows:

| | RMB'000 |
|---|---|
| Cash consideration | (32,613) |
| Cash consideration paid in prior years | 15,863 |
| Cash consideration unpaid | 4,750 |
| Cash and bank balances acquired | 2,268 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (9,732) |

## 37. DISPOSAL OF SUBSIDIARIES

| | 2018<br>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** |

## 37. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | RMB'000 |
|---|---|
| Cash consideration received | – |
| Cash and bank balances disposed of | (33,160) |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries | (33,160) |

## 38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

**2018**

| | Bank and other loans RMB'000 | Corporate bond RMB'000 |
|---|---|---|
| At 1 January 2018 | **3,147,184** | **596,542** |
| Changes from financing cash flows | **(678,559)** | **–** |
| Interest expense | **–** | **1,471** |
| At 31 December 2018 | **2,468,625** | **598,013** |

**2017**

| | Bank loans RMB'000 | Corporate bond RMB'000 |
|---|---|---|
| At 1 January 2017 | 3,056,403 | – |
| Changes from financing cash flows | 90,781 | 595,500 |
| Interest expense | – | 1,042 |
| At 31 December 2017 | 3,147,184 | 596,542 |

## 39. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 33 to the financial statements.

## 40. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within a year | **244,309** | 242,271 |
| In the second to fifth years, inclusive | **318,040** | 324,801 |
| After five years | **140,852** | 117,849 |
| | **703,201** | 684,921 |

IFRS 16 will be effective on 1 January 2019 and the estimated effect on the right-of-use assets and lease liabilities are included in note 3.

## 41. RELATED PARTY TRANSACTIONS

(a) The following table presents the total amounts of transactions that have been entered into with related parties during the years ended 31 December 2018 and 2017, as well as the balances with related parties as at 31 December 2018 and 31 December 2017:

| | | Sales to related parties(i) RMB'000 | Purchases from related parties(i) 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 Communications Co., Ltd. | **2018** | **–** | **–** | **507** | **–** |
| | 2017 | – | 13,275 | – | 1,493 |
| Beijing Xinyi Technology Co., Ltd. | **2018** | **133** | **2,725** | **10,964** | **11** |
| | 2017 | – | – | 10,279 | – |
| Shanghai Diju Information Technology Co., Ltd. | **2018** | **47,854** | **–** | **–** | **–** |
| | 2017 | 26,676 | – | – | – |
| **Joint ventures:** | | | | | |
| Hollard-D.Phone (Beijing) Technology Development Co., Ltd. | **2018** | **–** | **21,898** | **–** | **3,950** |
| | 2017 | – | 2,727 | 2,533 | – |
| Guangzhou Zhongqi Energy Technology Co., Ltd. | **2018** | **92,448** | **12,442** | **55,620** | **–** |
| | 2017 | 70,370 | 12,898 | 36,911 | – |
| Shaanxi Hartcourt Intermediation Information Technology Co., Ltd.[4] | **2018** | **–** | **–** | **–** | **–** |
| | 2017 | – | – | – | 667 |
| **Fellow subsidiaries:** | | | | | |
| Beijing Dphone Communication Services Co., Ltd.[1] | **2018** | **1,586** | **–** | **10,653** | **292** |
| | 2017 | 220 | – | 3,987 | 141 |
| Guang'an Dixin Cloud Communication Technology Co., Ltd.[1] | **2018** | **254** | **–** | **276** | **–** |
| | 2017 | 396 | – | 150 | – |
| Fushun Shenshang Commercial Real Estate Co., Ltd.[1] | **2018** | **–** | **–** | **90,000** | **–** |
| | 2017 | – | – | – | – |
| **A company significantly influenced by the controlling shareholders** | | | | | |
| Beijing Tianxingyuanjing Technology Co., Ltd.[2] | **2018** | **3,863** | **–** | **688** | **–** |
| | 2017 | – | – | 27 | – |
| **Subsidiaries of non-controlling shareholders** | | | | | |
| Beijing Digital China Co., Ltd.[3] | **2018** | **–** | **15** | **3** | **–** |
| | 2017 | – | 1,089 | – | – |
| Digital China (Shenzhen) Limited.[3] | **2018** | **–** | **–** | **–** | **–** |
| | 2017 | – | 69 | – | – |

## 41. RELATED PARTY TRANSACTIONS *(Continued)*

### (a) *(Continued)*

[1] *The investments in the fellow subsidiaries, 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.*

[2] *The investment in the entity, Beijing Tianxingyuanjing Technology Co., Ltd. is held by Mr. Liu Donghai, the controlling shareholder of the Company and Mr.Jinxin, who was the CEO of the Group before 13 July 2018. They hold a 25% equity interest in aggregate and have significant influence over the entity.*

[3] *Beijing Digital China Limited, Digital China (Shenzhen) Limited and Digital China (HK) Limited are all controlled by Digital China Group Co., Ltd. Digital China (HK) Limited is the non-controlling shareholder of the Company and holds a 23.75% equity interest of the Company.*

[4] *In May 2018, the investment of Shaanxi Hartcourt Intermediation Information Technology Co., Ltd. was accounted for the investment of joint ventures as the change of proportion of shareholding. In October 2018, the Company disposed of the long-term equity investments of Shaanxi Hartcourt Intermediation Information Technology Co., Ltd.*

*Note:*

(i) *The transaction prices were determined based on prices the Group transacted with independent third party customers and suppliers.*

(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 of 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.*

## 42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### Financial assets

| | As at 31 December 2018<br>Financial assets at fair value through other comprehensive income | | | |
|---|---|---|---|---|
| | **Debt investments RMB'000** | **Equity investments RMB'000** | **Financial assets at amortised cost RMB'000** | **Total RMB'000** |
| Equity investments designated at fair value through other comprehensive income | **–** | **41,713** | **–** | **41,713** |
| Trade and bills receivables | **2,389** | **–** | **2,169,948** | **2,172,337** |
| Financial assets included in prepayments, other receivables and other assets | **–** | **–** | **200,506** | **200,506** |
| Due from the related parties | **–** | **–** | **168,711** | **168,711** |
| Due from the controlling shareholder | **–** | **–** | **35,000** | **35,000** |
| Loan receivables | **–** | **–** | **57,112** | **57,112** |
| Pledged deposits | **–** | **–** | **660,251** | **660,251** |
| Cash and cash equivalents | **–** | **–** | **708,548** | **708,548** |
| | **2,389** | **41,713** | **4,000,076** | **4,044,178** |

| | As at 31 December 2017 | | |
|---|---|---|---|
| | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
| Available-for-sale investments | – | 220,845 | 220,845 |
| Trade and bills receivables | 1,986,806 | – | 1,986,806 |
| Prepayments, other receivables and other assets | 228,483 | – | 228,483 |
| Due from related parties | 53,887 | – | 53,887 |
| Loan receivables | 354,217 | – | 354,217 |
| Pledged deposits | 953,421 | – | 953,421 |
| Cash and cash equivalents | 614,879 | – | 614,879 |
| | 4,191,693 | 220,845 | 4,412,538 |

## 42. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### Financial liabilities

| | Financial liabilities at amortised cost As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Trade and bills payables | **484,876** | 431,935 |
| Financial liabilities included in other payables and accruals | **77,795** | 143,159 |
| Due to related parties | **4,253** | 2,301 |
| Interest-bearing bank and other borrowings | **3,066,638** | 3,743,726 |
| | **3,633,562** | 4,321,121 |

## 43. TRANSFERS OF FINANCIAL ASSETS

### Transferred financial assets that are not derecognised in their entirety

As part of its normal business, the Group entered into two trade receivable factoring arrangements (the "Arrangements") and transferred certain trade receivables to financial institutions. Under the Arrangements, the Company may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 25-30 days. The Company is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Company did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The carrying amount of the assets that the Group continued to recognise as at 31 December 2018 was RMB38,573,000 (2017: nil) and that of the associated liabilities as at 31 December 2018 was RMB34,584,000 (2017: nil).

## 44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, pledged deposits, loan receivables, trade receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, due from the controlling shareholder, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the current portion of interest-bearing loans and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of interest-bearing loans at the end of each reporting period approximated to their corresponding carrying amounts due to their short-term maturities. The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities

## 44. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

The fair values of unlisted equity investments which had recent history of share transactions are based on observable market transaction prices. The fair values of other unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple, enterprise value to sales ("EV/Sales") multiple, price to sales ("P/Sales") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018:

| | Valuation technique | Significant unobservable input | Range | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Unlisted equity investments (2017: Unlisted available-for-sale equity investments) | Valuation multiples | Average EV/Sales multiple of peers or average P/Sales multiple of peers | 2018: 0.58 to 2.55 (2017: 1.03) | 5% (2017: 5%) increase in multiple would result in increase in fair value by RMB573,000 (2017: RMB160,000) |
| | | Discount for lack of marketability | 2018: 15% to 20% (2017:18% to 24%) | 5% (2017: 5%) increase in discount would result in decrease in fair value by RMB139,000 (2017: RMB140,000) |

## 44. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

**As at 31 December 2018**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Equity investments designated at fair value through other comprehensive income | **–** | **30,000** | **11,713** | **41,713** |
| Bills receivable | **–** | **2,389** | **–** | **2,389** |
| | **–** | **32,389** | **11,713** | **44,102** |

**As at 31 December 2017**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Available-for-sale investments: | | | | |
| Unlisted debt investments | – | 210,000 | – | 210,000 |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade receivables and trade and bills payables as well as other receivables and payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in profit before tax** RMB'000 |
|---|---|---|
| **2018** | **100** | **(279)** |
| | **(100)** | **279** |
| 2017 | 100 | (647) |
| | (100) | 647 |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Foreign currency risk

The Group's businesses are mainly 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, EUR and HKD. The Group has not hedged its foreign exchange rate risk.

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

**2018**

| | **Increase/ (decrease) in foreign currency rate RMB'000** | **Increase/ (decrease) in profit after tax and equity RMB'000** |
|---|---|---|
| If RMB weakens against USD | **5** | **8,081** |
| If RMB strengthens against USD | **(5)** | **(8,081)** |
| If RMB weakens against EUR | **5** | **3,060** |
| If RMB strengthens against EUR | **(5)** | **(3,060)** |
| If RMB weakens against HKD | **5** | **845** |
| If RMB strengthens against HKD | **(5)** | **(845)** |

2017

| | Increase/ (decrease) in foreign currency rate % | Increase/ (decrease) in profit after tax and equity RMB'000 |
|---|---|---|
| If RMB weakens against USD | 5 | 2,493 |
| If RMB strengthens against USD | (5) | (2,493) |
| If RMB weakens against HKD | 5 | 194 |
| If RMB strengthens against HKD | (5) | (194) |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

*Maximum exposure and year-end staging as at 31 December 2018*

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | RMB'000 |
| Trade receivables* | – | – | – | 2,169,948 | 2,169,948 |
| Bill receivables | 2,389 | – | – | – | 2,389 |
| Financial assets included in prepayments, other receivables and other assets** – Normal | 196,174 | 4,332 | – | – | 200,506 |
| Due from the related parties | 168,711 | – | – | – | 168,711 |
| Due from controlling shareholder | 35,000 | – | – | – | 35,000 |
| Loan receivables | 57,112 | – | – | – | 57,112 |
| Pledged deposits – Not yet past due | 660,251 | – | – | – | 660,251 |
| Cash and cash equivalents – Not yet past due | 708,548 | – | – | – | 708,548 |
| | 1,828,185 | 4,332 | – | 2,169,948 | 4,002,465 |

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 27 to the financial statements.*

** *The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".*

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, loan receivables and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 27 to the financial statements.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

| **31 December 2018** | **On demand** RMB'000 | **Less than 3 months** RMB'000 | **3 to 12 months** RMB'000 | **More than 12 months** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|
| Interest-bearing bank and other borrowings | **–** | **1,456,640** | **1,703,552** | **–** | **3,160,192** |
| Trade and bills payables | **–** | **308,797** | **176,079** | **–** | **484,876** |
| Financial liabilities included in other payables and accruals | **–** | **42,285** | **35,322** | **188** | **77,795** |
| Due to related parties | **–** | **4,253** | **–** | **–** | **4,253** |
| | **–** | **1,811,975** | **1,914,953** | **188** | **3,727,116** |

| 31 December 2017 | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | More than 12 months RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Interest-bearing bank and other borrowings | – | 2,093,801 | 1,111,922 | 690,000 | 3,895,723 |
| Trade and bills payables | – | 376,068 | 55,867 | – | 431,935 |
| Financial liabilities included in other payables and accruals | – | 100,495 | 42,483 | 181 | 143,159 |
| Due to related parties | – | 2,301 | – | – | 2,301 |
| | – | 2,572,665 | 1,210,272 | 690,181 | 4,473,118 |

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, less cash and cash equivalents. Capital represents total equity.

During the year, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at the end of the reporting periods are as follows:

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Interest-bearing bank and other borrowings | **3,066,638** | 3,743,726 |
| Less: cash and cash equivalents | **(708,548)** | (614,879) |
| Net debt | **2,358,090** | 3,128,847 |
| Total equity | **3,833,705** | 3,511,342 |
| Net debt and total equity | **6,191,795** | 6,640,189 |
| Gearing ratio | **38%** | 47% |

## 46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | **37,060** | 38,688 |
| Intangible assets | **82** | 322 |
| Investments in subsidiaries | **1,027,221** | 646,716 |
| Investments in joint ventures | **70,734** | 74,641 |
| Investments in associates | **36,650** | 3,221 |
| Equity investments at fair value through other comprehensive income | **41,713** | – |
| Available-for-sale investments | **–** | 10,845 |
| Deferred tax assets | **9,784** | 5,813 |
| Total non-current assets | **1,223,244** | 780,246 |
| CURRENT ASSETS | | |
| Inventories | **283,480** | 241,176 |
| Trade and bills receivables | **952,555** | 715,237 |
| Prepayments, other receivables and other assets | **98,323** | 118,054 |
| Loan receivables | **–** | 300,000 |
| Due from subsidiaries | **1,535,745** | 1,534,311 |
| Due from the controlling shareholder | **35,000** | – |
| Due from related parties | **34,865** | 24,752 |
| Available-for-sale investments | **–** | 200,000 |
| Pledged deposits | **466,483** | 710,173 |
| Cash and cash equivalents | **61,182** | 336,182 |
| Total current assets | **3,467,633** | 4,179,885 |

## 46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Trade and bills payables | **1,298,124** | 1,321,257 |
| Other payables and accruals | **132,712** | 56,828 |
| Interest-bearing bank and other borrowings | **1,910,502** | 1,631,658 |
| Due to subsidiaries | **50,886** | 68,712 |
| Due to related parties | **1,111** | – |
| Tax payable | **16,412** | 11,111 |
| Total current liabilities | **3,409,747** | 3,089,566 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **1,281,130** | 1,870,565 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | **–** | 596,542 |
| NET ASSETS | **1,281,130** | 1,274,023 |
| EQUITY | | |
| Share capital | **666,667** | 666,667 |
| Reserves *(note)* | **614,463** | 607,356 |
| Total equity | **1,281,130** | 1,274,023 |

## 46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

*Note:*

*A summary of the Company's reserves is as follows:*

| | Capital reserve RMB'000 | Statutory reserve funds RMB'000 | Exchange fluctuation reserve RMB'000 | Fair value reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 31 December 2016 and 1 January 2017 | 520,974 | 38,573 | – | – | 47,387 | 606,934 |
| Profit for the year | – | – | – | – | 1,497 | 1,497 |
| Other comprehensive loss for the year: | | | | | | |
| Share of other comprehensive loss of a joint venture | – | – | (1,075) | – | – | (1,075) |
| Total comprehensive income for the year | – | – | (1,075) | – | 1,497 | 422 |
| Transfer from retained profits | – | 150 | – | – | (150) | – |
| At 31 December 2017 and 1 January 2018 | 520,974 | 38,723 | (1,075) | – | 48,734 | 607,356 |
| Effect of adoption of IFRS 9 | – | – | – | (950) | – | (950) |
| At 31 December 2017 and 1 January 2018 (restated) | 520,974 | 38,723 | (1,075) | (950) | 48,734 | 606,406 |
| Profit for the year | – | – | – | – | 1,218 | 1,218 |
| Other comprehensive income for the year: | | | | | | |
| Change in fair value of debt investments at fair value through other comprehensive | – | – | – | 5,087 | – | 5,087 |
| Change in fair value of equity investments at fair value through other comprehensive | – | – | – | 1,601 | – | 1,601 |
| Share of other comprehensive income of a joint venture | – | – | 151 | – | – | 151 |
| Total comprehensive income for the year | – | – | 151 | 6,688 | 1,218 | 8,057 |
| Transfer from retained profits | – | 122 | – | – | (122) | – |
| At 31 December 2018 | 520,974 | 38,845 | (924) | 5,738 | 49,830 | 614,463 |

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.