

coolpad 酷派

COOLPAD GROUP LIMITED

酷派集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2369)



coolpad

CORPORATE PROFILE

Coolpad Group Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2002. The shares of the Company (the “**Shares**”) were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 9 December 2004 (Stock Code: 2369).

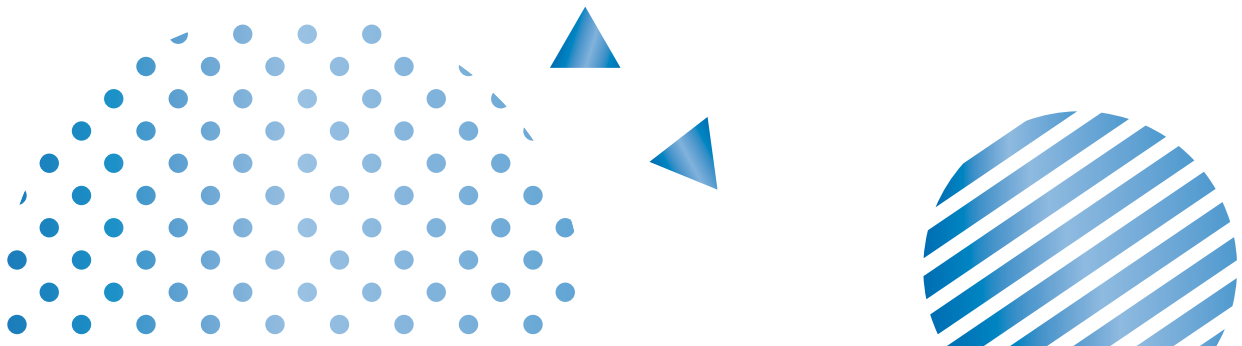
Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. (“**Yulong Shenzhen**”), founded in April 1993 is an indirect wholly owned subsidiary of the Company. Yulong Shenzhen is a leading developer and provider of integrated solutions for Coolpad 酷派 smartphone sets, mobile data platform system, and value-added business operations in the People’s Republic of China (the “**PRC**” or the “**Mainland China**”). Yulong Shenzhen mainly provides its Coolpad products for enterprises, government and mobile operators as well as individual consumers in the PRC.

In the last decade, capitalizing on the development of wireless telecommunications technological know-how in wireless telecommunications across multiple wireless telecommunications network standards including TD-LTE, FDD-LTE, TD-SCDMA, CDMA-EVDO, WCDMA, GSM, and CDMA1X networks, the Company and its

subsidiaries (collectively, the “**Group**”) have developed a large number of proprietary technologies and patents in mobile operating systems, radio frequency, protocols and wireless data decomposed transmission technology, etc. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of 4G and 3G smartphone in the Mainland China’s telecommunications market. The Group never stops enhancing its R&D ability and is striving to be an important participant and a leader in the latest field of 5G and Artificial Intelligence.

The Group has succeeded in breaking into the global telecommunications market in respect of Coolpad brand. The Group has established strong and close strategic cooperation relationships with certain global telecommunication operators and is striving to further develop its business in the global telecommunication markets.

The Group is committed to providing every individual with the privilege to enjoy the extravagant experience of using integrated terminal of wireless data solutions. To achieve this goal, the Group is striving to realize its dream by providing customized products and services based on its differentiated mobile operating systems and applications.



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CORPORATE INFORMATION

Registered Office

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Grand Cayman
KY1-1111
Cayman Islands

Head Office and Principal Place of Business in the PRC

Coolpad Information Harbor
No. 8 of Gaoxin North 1st Road
Hi-Tech Industry Park (Northern)
Nanshan District
Shenzhen

Principal Place of Business in Hong Kong

44/F, Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Joint Company Secretaries

Mr. MA Fei
Mr. TSANG Hing Bun

Audit Committee and Remuneration Committee

Mr. CHAN King Chung (*Chairperson*)
Dr. HUANG Dazhan
Mr. XIE Weixin

Nomination Committee

Mr. CHAN King Chung (*Chairperson*)
Mr. CHEN Jiajun
Mr. XIE Weixin

Authorised Representatives

Mr. MA Fei
Mr. TSANG Hing Bun

Contact Information for Investor Relations

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Auditor

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Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, CITIC Tower
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Central, Hong Kong

Legal Advisers to the Company as to Hong Kong Law

Baker & McKenzie
14th Floor
One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Legal Advisers to the Company as to Cayman Islands Law

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586, Gardenia Court
Camana Bay, Grand Cayman, KY1-1100
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-16
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

DBS Bank (Hong Kong) Ltd.
Bank of China Limited
China Construction Bank Corporation

Company Website

www.coolpad.com.hk

Stock Code

2369

FINANCIAL HIGHLIGHTS

The financial data below are extracted from the Group's audited financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Results

	Year ended 31 December (HK\$'000)				
	2020	2019 (Restated)	2018	2017	2016
Revenue	811,757	1,858,090	1,277,164	3,378,077	7,969,477
(Loss)/profit before tax	(299,063)	118,111	(419,408)	(2,702,251)	(4,356,068)
Income tax (expense)/credit	(45,965)	(3,299)	8,746	(20,825)	(45,352)
(Loss)/profit for the year	(393,828)	112,094	(410,662)	(2,723,076)	(4,401,420)

Financial Position

	As at 31 December (HK\$'000)				
	2020	2019	2018	2017	2016
Non-current assets	3,233,696	1,720,375	1,856,007	1,991,344	2,741,032
Current assets	1,087,820	1,639,603	1,260,759	2,859,486	7,113,372
Non-current liabilities	383,479	328,057	278,352	296,464	67,213
Current liabilities	2,619,184	2,323,697	2,423,747	3,764,950	6,248,881
Net assets	1,318,853	708,224	414,667	789,416	3,538,310

Note:

The results of the discontinued operation prior to 2019 have not been restated or reclassified. Therefore, the results prior to 2019 may not be comparable to 2019 and 2020.

CHAIRMAN OF THE BOARD'S STATEMENT



Chairman of the Board
CHEN JIAJUN

Dear Fellow Shareholders:

I am deeply honored to report the consolidated results for the year ended 31 December 2020 (the “**Year**”) to the shareholders of the Group. The Group confronted a great number of changes, challenges and opportunities in the Year. On one hand, we aligned the interests of our employees and the Group closely and continued to strictly control operation costs and other risks with positive attitude toward difficulties and changes, on the other hand, we have strived to make immediate and effective responses to different events to provide a strong support to the long-term development of the Group. Looking back to 2020, the main business of the Group was greatly affected by the COVID-19 pandemic, in response to the market changes, the Group will carry out new development strategies and forge ahead.

For the Year, the Group recorded a turnover of HK\$811.76 million, representing a decrease of 56.31% from HK\$1,858.09 million for the year ended 31 December 2019, which was mainly attributed to the impact of the COVID-19 pandemic. During the Year, the Group’s overall gross profit margin was 15.04%, representing a decrease of 8.2 percentage points from 23.24% for the year ended 31 December 2019. The Group recorded a net loss from continuing operations of HK\$345.03 million, representing an decrease of HK\$459.84 million, as compared with the net profit of HK\$114.81 million for the year ended 31 December 2019. The turnaround from profit to loss for 2020 is mainly attributable to the impact of the COVID-19 pandemic during the Year. Both the basic and diluted loss per share of the Group were HK\$6.56 cents for the Year.

In 2020, the sales of smartphone decreased due to the weak overseas consumption affected by the COVID-19. At the same time, the global resumption of production did not meet expectations and some of the devices continued to be out of stock, resulting in large price fluctuations. The Group’s product gross margins continued to decline and the overseas market was under pressure. In response to this situation, the Group had continued to deepen cooperation with operators and adapted to the new market environment during the COVID-19 pandemic period, and the sales of some products increase since we successfully seized new opportunities arising from the COVID-19 pandemic. In addition, the Group successfully expanded its business to Japan and Latin America. In Japan, the Group gained the order for a 5G phone project

CHAIRMAN OF THE BOARD'S STATEMENT

supporting millimeter wave band at first time, which will be of great significance to enhance the Company's position in the Asia-Pacific communications market. In China, the Group also restarted domestic phone business and rebuilt operation team in 2020 to gradually restore the production layout and sales channel in market. The Group has successfully reopened Jingdong online sales in June, 2020; released X10, a 5G phone with pricing low to RMB1 thousand, in cooperation with China Telecom, which was equipped with the first 5G chip from domestic manufacturer UNISOC; successfully released several cell phone products and initially restored our domestic product line.

Despite the impact of the COVID-19 pandemic, China's annual GDP grew by 2.3 percent that is the highest growth among global major economies, which cannot be divorced from the efforts of all strivers. As a traditional mobile phones manufacturer and a member of "Zhong Hua Ku Lian", Coolpad has been striving for the brand renewal. Under the background, Featured by strivers' culture, Coolpad promotes its brand upgrade scheme in an orderly manner and is committed to providing affordable 5G mobile phones with fine quality for strivers in China, making them enjoy convenience brought by 5G and mobile Internet.

The Group attaches great importance to R&D capability. During the Year, the Group continued to strengthen R&D capability, with R&D personnel accounting for more than 50%. The Group has applied for more than 10,000 patents in aggregated, obtained more than 900 5G-related patents in the 5G field, and also participated in the formulation of 5G-related standards. According to the Top 100 PRC Corporation in Granted Invention Patents in 2020 jointly released by the Intellectual property right media IPRdaily and incoPat Innovation Index Research Centre, Yulong Shenzhen, a wholly-owned subsidiary of the Group, ranks 53rd among all Chinese companies with 329 patents. Meantime, the Group has been investing in the research and development of smartphone operating systems and software, achieving good performance. In 2020, it submitted various high-quality kernel patches to the Linux community, which was highly recognized by Linus Torvalds, the community leader and the father of Linux. In addition, The Group has been successfully included in the top 100 contributors to the core code of the Linux kernel.



CHAIRMAN OF THE BOARD'S STATEMENT

The Company completed an issue of 200,000,000 new ordinary shares at a subscription price of HK\$0.130 per share on 30 June 2020 and successfully raised net proceeds of HK\$25.5 million. Subsequently, the Company completed an issue of 500,000,000 new ordinary shares at a subscription price of HK\$0.180 per share on 13 November 2020 and successfully raised net proceeds of HK\$89.5 million. For the Year, a total of HK\$115 million was raised which was served to replenish the Group's working capital, thus alleviating its liquidity shortage. At the same time, the Group is negotiating with several banks in Mainland China and Hong Kong for credit financing. Currently, the Group may be able to obtain loan credit from certain financial institutions in Mainland China. With the safeguard of such capital support, the Group is confident to provide more competitive products and better services to the market.

In the future, the Group will adhere to the long-term strategy of developing business simultaneously in China and overseas markets. In the overseas market, the Group endeavours to actively consolidate and maintain the relationship with overseas customers, to improve the operating efficiency in the overseas market and to strictly control the operating expenses, so as to continuously reduce the operating costs. At the same time, the Group endeavour to continue to develop emerging markets to achieve synergies with existing markets and expand our brand influence. In terms of products, the Group will focus more on the mobile phone market and concentrate its advantages to provide more competitive products.

In the Chinese market, the Group continues to increase its research and development efforts in 5G, mobile operating systems and Internet operation services, and strives to develop popular products. Particularly in the Internet business, the Group strives to catch up with first-tier brands, comprehensively enrich the Internet content and mobile operating system ("OS") functions, build a complete ecological closed-loop between OS system and Internet services, realise rapid iteration of core applications, improve consumer experience, and reach the level of leading brands in the industry with overall efforts. In terms of channels, the Group will strengthen the construction and management of sales channels, steadily develop online channels of e-commerce and traditional channels of operators, and at the same time focus on developing markets in lower-tier cities of offline channels. By relying on the dividends of China's domestic economic development, the Group will vigorously advocate the "striver" culture and carry out brand upgrade, so that the Coolpad brand can mark its return to the Chinese market with a new image.

Appreciations

I would like to express my sincere gratitude to the Group's management and staff for their consistent efforts and tireless spirit of excellence. I would also like to take this opportunity to express my gratitude to all the shareholders, business partners, customers and suppliers of the Group for their long-term trust and support.

Chen Jiajun

Chairman of the Board

Hong Kong, 26 March 2021



Today's Innovation
SUCCESS
IN THE FUTURE

TOTAL REVENUE HK\$811.76 MILLION

The financial data below are extracted from the Group's financial statements prepared under HKFRSs. The following discussion and analysis should be read in conjunction with the Group's audited financial statements.

	Year ended 31 December		
	2020	2019 (Restated)	Variance (%)
CONTINUING OPERATIONS			
REVENUE			
Sale of mobile phones and related accessories	795.15	1,854.15	-57.12
Wireless application service income	16.61	3.94	321.57
Total revenue	811.76	1,858.09	-56.31
Cost of sales	(689.71)	(1,426.20)	-51.64
Gross profit	122.05	431.89	-71.74
Other income and gains	287.26	198.63	44.62
Impairment of investments in associates	–	(3.20)	NA
Selling and distribution expenses	(200.24)	(269.11)	-25.59
Administrative expenses	(296.43)	(247.14)	19.94
Other expenses	(121.40)	(58.57)	107.27
Finance costs	(37.00)	(44.20)	-16.29
Share of profits and losses of:			
Joint ventures	(5.77)	129.05	NA
Associates	(47.53)	(19.24)	147.04
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	(299.06)	118.11	NA
Income tax expense	(45.97)	(3.30)	1,293.03
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	(345.03)	114.81	NA
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	(48.80)	(2.72)	1,694.12
(LOSS)/PROFIT FOR THE YEAR	(393.83)	112.09	NA



MANAGEMENT DISCUSSION AND ANALYSIS

Revenue Analysed by Product Segments

A comparative breakdown of the consolidated revenue streams into the product segments are set forth in the following table for the years indicated:

	Year ended 31 December			
	2020		2019 (Restated)	
	Revenue HK\$ million	% of revenue	Revenue HK\$ million	% of revenue
Revenue				
Sale of mobile phones and related accessories	795.15	97.95	1,854.15	99.79
Wireless application service income	16.61	2.05	3.94	0.21
Total	811.76	100	1,858.09	100

The Group recorded consolidated revenue for the Year of HK\$811.76 million, representing a decrease of 56.31% as compared with HK\$1,858.09 million for the year ended 31 December 2019, which was mainly due to the impact of the COVID-19 pandemic during the Year. As a result of its impact, the Group postponed the launch of some new models, resulting in a significant decrease in sales volume.

Gross Profit

	Year ended 31 December			
	2020		2019 (Restated)	
	Gross profit HK\$ million	Gross profit margin (%)	Gross profit HK\$ million	Gross profit margin (%)
Gross profit				
Total	122.05	15.04	431.89	23.24

The Group's overall gross profit for the Year was HK\$122.05 million, compared with HK\$431.89 million gross profit for the year ended 31 December 2019. The Group's overall gross profit margin for the Year was 15.04%, representing a decrease of 8.20 percentage points as compared with 23.24% for the year ended 31 December 2019. The decrease of gross profit was primarily attributable to Group's substantial price promotions and more discounts to major customers for a sustained cooperation with them as a result of the impact of the COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

	Year ended 31 December	
	2020	2019
Selling and distribution expenses (HK\$ million)	200.24	269.11
Selling and distribution expenses/revenue (%)	24.67	14.48

Selling and distribution expenses of the Group for the Year decreased to HK\$200.24 million, representing a decrease of 25.59%, as compared with HK\$269.11 million for the year ended 31 December 2019. The decrease in selling and distribution expenses was primarily attributable to the reduction in marketing expenses, because the Group reduced its advertising and promotion activities in the US market in 2020 following the impact of the COVID-19 pandemic, resulting in the lower number of the corresponding exhibition machines and prototypes.

Administrative Expense

	Year ended 31 December	
	2020	2019 (Restated)
Administrative expenses (HK\$ million)	296.43	247.14
Administrative expenses/revenue (%)	36.52	13.30

Administrative expenses increased by 19.94% from HK\$247.14 million for the year ended 31 December 2019 to HK\$296.43 million for the Year. Administrative expenses as a percentage of total revenue increased to 36.52% in 2020 from 13.30% in 2019. The net increase of 23.22 percentage points was attributable to the increase demand for R&D.

Income Tax Expense

For the Year, the Group has turned to loss before tax from continuing operations of HK\$299.06 million from profit before tax from continuing operations of HK\$118.11 million for the year ended 31 December 2019, and the Group's income tax expense increased to HK\$45.97 million from HK\$3.30 million for the year ended 31 December 2019. The net increase of HK\$42.67 million was attributable to the deferred tax expense relating to fair value gain on investment properties for the Year.

Liquidity and Financial Resource

For the Year, the Group's operating capital was mainly generated from cash from its daily operation, equity funding, interest-bearing loan and other borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and other unforeseeable cash requirements. The Group had a gearing ratio of 64% as at 31 December 2020 (2019: 76%). The gearing ratio is equal to net debt divided by the sum of capital and net debt.

Cash and cash equivalents of the Group as at 31 December 2020 amounting to HK\$208.77 million, while it was HK\$297.42 million as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

(a) Litigation with customers

A subsidiary of the Group is currently a plaintiff in a lawsuit with certain customers in the United States of America, who refused to settle trade receivables of approximately US\$25,000,000 (equivalent to HK\$193,815,000) (2019: US\$25,000,000). When preparing these consolidated financial statements, the aforesaid lawsuit was still in progress.

(b) Litigations with suppliers

The Group received several civil complaints in 2020 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB52 million (equivalent to HK\$62 million) (2019: RMB41 million). The arbitration procedures of the civil complaints were still in progress as at the date of approval of the consolidated financial statements.

Pledge of Assets

- (a) As at 31 December 2020, the Group's 20% share in the investment in an associate, Nanjing Yulong Weixin Information Scientific Limited, with a carrying value of HK\$25.51 million (2019: HK\$25.61 million) was pledged as security for a shareholder loan of this associate.
- (b) As at 31 December 2020, none of the Group's listed equity investments were pledged as security for the Group's loan from third party (2019: HK\$71.99 million).
- (c) As at 31 December 2020, the Group's time deposits of approximately (i) HK\$59.41 million were used as a pledged for issuance of letters of credit (2019: HK\$55.82 million), and (ii) HK\$20.02 million were used as a security for the banks to provide performance guarantees (2019: HK\$11.05 million).
- (d) Certain of the Group's bank and other borrowings are required to be secured by:
 - (i) mortgages over the Group's investment property situated in Mainland China, which had an carrying value at the end of the reporting period of HK\$1,698.35 million;
 - (ii) mortgages over the Group's buildings, which had a net carrying value at the end of the reporting period of approximately HK\$114.54 million;
 - (iii) mortgages over the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of approximately HK\$11.15 million.

At the date of approval of the report, the Group is in the process of applying for the abovementioned mortgage registration.

- (e) Subsequent to the end of the reporting period, on 5 February 2021, the Group entered into an agreement with the borrower to extend a loan included in other borrowings amounted to RMB100 million from September 2020 to September 2022. Pursuant to the agreement, certain investment properties, property, plant and equipment and right-of-use assets of the Group with a carrying value of HK\$589 million, HK\$128 million and HK\$26 million as at 31 December 2020 respectively were pledged as security for the loan.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Looking back on 2020, with the ongoing outbreak of the COVID-19 pandemic, the world economy outside China has shown an overall slowdown. As a result, the global smartphone market also experienced a decline. According to the data from Gartner Group and Canalys, the overall sales for the Year declined by 12.5% year-on-year, and the sales in China also declined by 11% year-on-year. However, with the launch of the COVID-19 vaccine, the COVID-19 pandemic has been gradually brought under control, and the global economy is expected to recover rapidly in 2021. Coupled with the emerging popularity of 5G, it's expected to achieve a substantial increase in the sales of mobile phones worldwide in 2021. According to the estimation of Gartner, 1.5 billion smartphones will be sold worldwide in 2021, representing a year-on-year increase of 11.4%.

Financial Review

For the Year, the Group recorded a turnover of HK\$811.76 million, representing a decrease of 56.31% from HK\$1,858.09 million for the year ended 31 December 2019, which was mainly attributed to the impact of the COVID-19 pandemic during the Year. As a result, the Group postponed the launch of some new models, resulting in a significant decrease in sales volume; the Group increased sales rebates to boost sales in the United States market, the Group's main sales market for its products where the sales were dampened, resulting in a significant decrease in revenue. In terms of emerging businesses, industrial internet products, AR products and anti-pandemic related products had all been launched, but they were small in scale and continued to be invested during the Year, making very little contribution to the Group's turnover. During the Year, the Group's overall gross profit margin was 15.04%, representing a decrease of 8.2 percentage points from 23.24% for the year ended 31 December 2019. The decrease in gross profit margin was mainly due to the Group's substantial price promotions and more discounts to major customers for a sustained cooperation with them as a result of the impact of the COVID-19 pandemic. Total sales and distribution and administrative expenses of the Group accounted for 61.18% of the total revenue, representing an increase of 33.4 percentage points from 27.78% for the year ended 31 December 2019, which was mainly due to a significant decrease in turnover for the Year, but the sales and distribution and administrative expenses did not significantly decrease with the decrease in sales scale. The sales and distribution expenses of the Group amounted to HK\$200.24 million, representing a decrease of HK\$68.87 million as compared with 2019, which was mainly due to the reduction in marketing expenses, because the Group reduced its advertising and promotion activities in the US market in 2020 following the impact of the COVID-19 pandemic, resulting in the lower number of the corresponding exhibition machines and prototypes. The administrative expenses of the Group amounted to HK\$296.43 million, representing an increase of HK\$49.29 million from HK\$247.14 million in 2019, which was mainly due to the increase demand for research and development ("**R&D**").

For the Year, the Group recorded a net loss from continuing operations of HK\$345.03 million, representing a decrease of HK\$459.84 million, as compared with the net profit of HK\$114.81 million for the year ended 31 December 2019. The turnaround from profit to loss for 2020 is mainly attributable to the impact of the COVID-19 pandemic during the Year. As a result of its impact, the revenue significantly decreased.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Support

The Company completed an issue of 200,000,000 new ordinary shares at a subscription price of HK\$0.130 per share on 30 June 2020 and successfully raised net proceeds of HK\$25.5 million. Subsequently, the Company completed an issue of 500,000,000 new ordinary shares at a subscription price of HK\$0.180 per share on 13 November 2020 and successfully raised net proceeds of HK\$89.5 million. For the Year, a total of HK\$115 million was raised which was served to replenish the Group's working capital, thus alleviating its liquidity shortage.

Saved as disclosed in this section headed "Capital Support" in this report, the Company has not conducted any equity fund raising activities during the Year. The details of the proceeds raised from the various share subscription are as follows:

Event and date	The name of the allottees	Price of the Company's listed shares concerned on the date on which the terms of the issue were fixed HK\$ per Share	Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds up to the date of this report
Issue and allotment of 500,000,000 Shares on 13 November 2020	Allove Group Limited	0.183	HK\$89.5 million	Business expansion, capital expenditures and general working capital of research, development, manufacturing and sale of smart phones	The net proceeds of HK\$89,500,000 have been fully applied as intended and as disclosed in the announcement of the Company dated 4 November 2020, amongst which approximately HK\$4.1 million was utilized for daily operating expenses and approximately HK\$85.62 million was applied as general working capital of manufacturing and sale of smart phones.
Issue and allotment of 200,000,000 Shares on 30 June 2020	Kung, Chak Ming	0.148	HK\$25.5 million	Capital for the repayment of trade payables and purchase of raw materials of the Group	The net proceeds of HK\$25.5 million has been fully utilized as intended and as disclosed in the announcement of the Company dated 15 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development

The Group attaches great importance to R&D capability. During the Year, the Group continued to strengthen R&D capability, with R&D personnel accounting for more than 50%. The Group has applied for more than 10,000 patents in aggregate, obtained more than 900 5G-related patents in the 5G field, and also participated in the formulation of 5G-related standards. According to the Ranking List of Invention Patent Grants of PRC Companies in 2020 (Top 100) jointly released by the intellectual property right media IPRdaily and incoPat Innovation Index Research Centre, Yulong Shenzhen, a wholly-owned subsidiary of the Group, ranks 53rd among all Chinese companies with 329 patents.

Meantime, the Group has been investing in the research and development of smartphone operating systems and software, achieving good performance. In 2020, it submitted various high-quality kernel patches to the Linux community, which was highly recognized by Mr. Linus Torvalds, the community leader and the father of Linux. In addition, the Group has been successfully included in the top 100 contributors to the core code of the Linux kernel.

Market Overview

In 2020, the sales of smartphone decreased due to the weak overseas consumption affected by the COVID-19 pandemic. At the same time, the global resumption of work and production did not meet expectations and some of the devices continued to be out of stock, resulting in large price fluctuations. The Group's product gross margins continued to decline and the overseas market was under pressure. To proactively address this situation, the Group had continued to deepen cooperation with operators and adapted to the new market environment during the COVID-19 pandemic period, and the sales of some products increase since we successfully seized new opportunities arising from the COVID-19 pandemic. In addition, the Group successfully expanded its business to Japan and Latin America. In Japan, the Group gained the order for a 5G phone project supporting millimeter wave band at first time, which will be of great significance to enhance the Company's position in the Asia-Pacific communications market.

In China, the Group also restarted domestic phone business and rebuilt operation team in 2020 to gradually restore the production layout and sales channel in Chinese market. The Group has successfully reopened Jingdong online sales in June 2020; launched the cost-effective X10, 5G mobile phone in cooperation with China Telecom, which was equipped with the first 5G chip from domestic manufacturer UNISOC; successfully launched several mobile phone products and initially restored our domestic product line during the Year.

Brand Upgrade and Reconstruction

Despite the impact of the COVID-19 pandemic, China's annual GDP grew by 2.3% (the highest growth rate among global major economies), which cannot be divorced from the efforts of all strivers. As a traditional mobile phone manufacturer and a member of "Zhong Hua Ku Lian", Coolpad has been striving for the brand renewal. Under this background, featured by strivers' culture, Coolpad promotes its brand upgrade scheme in an orderly manner and is committed to providing affordable 5G mobile phones with fine quality for strivers in China, making them enjoy convenience brought by 5G and mobile Internet.

MANAGEMENT DISCUSSION AND ANALYSIS

Coolpad Building

Phase I of Coolpad Information Harbor of the Group completed construction works, and was put into operation in 2020. The Phase I building is located in a prime location, being the core location of North District of Science and Technology Park, Nanshan District, Shenzhen. By the end of 2020, the Group has officially moved in to the new site and use it as office space. In addition, the Group has set up a Science and Technology Park Merchant Operation Department at the beginning of the Year, which is responsible for overseeing building operations of the Coolpad Information Harbor.

Outlook

In the future, the Group will adhere to the long-term strategy of developing business simultaneously in China and overseas markets. In the overseas market, the Group endeavours to actively consolidate and maintain the relationship with overseas customers, to improve the operating efficiency in the overseas market and to strictly control the operating expenses, so as to continuously reduce the operating costs. At the same time, the Group continues to develop emerging markets to achieve synergies with existing markets and expand our brand influence. In terms of products, the Group will focus more on the mobile phone market and concentrate its strengths to provide more competitive products.

In the Chinese market, the Group continues to increase its research and development efforts in 5G, mobile operating systems and Internet operation services, and strives to develop popular products. Particularly in the Internet business, the Group strives to catch up with first-tier brands, comprehensively enrich the Internet content and mobile OS functions, build a complete ecological closed-loop between OS system and Internet services, realise rapid iteration of core applications, improve consumer experience, and attain the level of leading brands in the industry with overall efforts. In terms of channels, the Group will strengthen the construction and management of sales channels, steadily develop e-commerce online channels and traditional channels of operators, and at the same time focus on developing markets in lower-tier cities by offline channels. By relying on the dividends of China's domestic economic development, the Group will vigorously advocate the "striver" culture and carry out brand upgrade, so that the Coolpad brand can mark its return to the Chinese market with a new image.

CORPORATE GOVERNANCE REPORT

Application of Corporate Governance Principles

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is committed to enhancing the Group’s corporate governance standards by improving corporate transparency through effective channels of information disclosure.

The Board believes that good corporate governance is beneficial for maintaining close and trustful relationships with its employees, business partners, shareholders and investors.

The Company has adopted and complied with the code provisions under the Corporate Governance Code (the “**Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the Year.

Board of Directors

It is the duty of the Board to create value to the shareholders of the Company (the “**Shareholders**”), establish the Company’s strategic direction, set the Company’s objectives and plan in accordance therewith, and provide leadership and ensure availability of resources in the attainment of such objectives. The Board endeavours to manage the Company in a responsible and effective manner, and strive to ensure that each of the Directors carries out his duty in good faith and in compliance with the memorandum and articles of association of the Company (the “**Articles of Association**”), the applicable laws and regulations, and acts in the best interests of the Company and the Shareholders at all times.

The Board and management of the Company (the “**Management**”) have clearly defined responsibilities under various internal control and checks-and-balance mechanism. The Board has delegated certain responsibilities to the Management, including implementation of decisions of the Board and organization and direction of the day-to-day operation and the Management in accordance with the management strategies and plans approved by the Board; preparation and monitoring of annual business plans and operating budget; and control, supervision and monitoring of capital, technical and human resources. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

CORPORATE GOVERNANCE REPORT

Board Composition

The Board currently comprises ten Directors, four of whom are executive Directors, two are non-executive Directors and four are independent non-executive Directors (“INEDs”). The composition of the Board is set out as follows:

Executive Directors

Mr. CHEN Jiajun
 Mr. MA Fei
 Mr. XU Yibo
 Mr. LAM Ting Fung Freeman

Non-Executive Directors

Mr. LIANG Rui
 (re-designated from an executive Director to a non-executive Director with effect from 20 December 2020)
 Mr. NG Wai Hung

Independent Non-Executive Directors

Mr. CHAN King Chung
 Dr. HUANG Dazhan
 Mr. XIE Weixin
 Mr. GUO Jinghui

The biographies of the Directors are set out in the “Directors and Senior Management” on pages 27 to 31 of this Annual Report.

To the best knowledge of the Company, none of the Directors has any relationship (including financial, business, family or other material or relevant relationship) with any other Director or chief executive.

The Company has arranged for appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate affairs. The insurance coverage is reviewed annually.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Under code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. On 20 December 2020, Mr. Liang Rui resigned as chief executive officer of the Company and Mr. Chen Jiajun was appointed as chief executive officer. Currently, Mr. Chen Jiajun is the chairman of the Board and the chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management and believes that this structure enables the Group to make and implement decision promptly and efficiently.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company has not met the requirements under the Code during the year ended 31 December 2020.

Non-Executive Directors

The non-executive Directors provide various expertise and experiences and maintain balance of interest to safeguard the interests of the Group and the Shareholders. They participate in Board meetings and committee meetings and make independent judgements on issues related to the Group's strategies, performance, interest conflicts and management process so as to ensure the interests of all Shareholders are properly considered. Currently, the non-executive Directors are appointed for a period of three years.

Independent Non-Executive Directors

The INEDs have the same duties of care, skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors. The INEDs have expertise in respective areas of accounting, business management and possess in-depth industry knowledge. With their professional knowledge and experience, the INEDs have advised the Company on its operation and management; participated in the meetings of the audit committee of the Company (the "**Audit Committee**"), the meetings of the remuneration committee of the Company (the "**Remuneration Committee**") and the meetings of the nomination committee of the Company (the "**Nomination Committee**"). The INEDs have contributed to provide checks and balance to protect the interests of the Company and the Shareholders as a whole, and to promote the development of the Company.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and on this basis, considers that all INEDs are independent as at the date of this Annual Report.

Under Code Provision A.4.1 of the Code, non-executive Directors should be appointed for specific terms, subject to re-election. Currently, Mr. Guo Jinghui is appointed for a period of three years, while all other INEDs are appointed for a period of one year subject to renewal and retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

CORPORATE GOVERNANCE REPORT

Board Operation

During the Year, five Board meetings, one Annual General Meeting (“**AGM**”) and one Extraordinary General Meeting (“**EGM**”) were held during the Year.

Attendance of individual Directors at the Board meetings in 2020, AGM and EGM is as follows:

Name of Directors	Board Meetings	AGM	EGM
Executive Directors			
Mr. CHEN Jiajun	5/5	1/1	1/1
Mr. MA Fei	5/5	1/1	1/1
Mr. XU Yibo	5/5	1/1	1/1
Mr. LAM Ting Fung Freeman	5/5	1/1	1/1
Non-executive Directors			
Mr. LIANG Rui (re-designated from an executive Director to a non-executive Director on 20 December 2020)	5/5	1/1	1/1
Mr. NG Wai Hung	5/5	1/1	1/1
Independent Non-executive Directors			
Mr. CHAN King Chung	5/5	1/1	1/1
Dr. HUANG Dazhan	5/5	1/1	1/1
Mr. XIE Weixin	5/5	1/1	1/1
Mr. GUO Jinghui	5/5	1/1	1/1

Corporate Governance Functions

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company’s policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company’s code of conduct; and reviewing the Company’s compliance with the Code and disclosure in this Corporate Governance Report. Besides, the Company has set up three committees including the Nomination Committee, the Remuneration Committee and the Audit Committee. Each committee has its specific terms of reference with reference to the Code.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The written terms of reference of the Remuneration Committee are in compliance with the Code. The primary duties of the Remuneration Committee include (without limitation):

- (a) to make recommendations to the Board on policies and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and
- (b) to determine the remuneration packages for executive Directors and senior management and to make recommendations to the Board on the remuneration of non-executive Directors.

The Remuneration Committee is made up of all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Dr. HUANG Dazhan, and Mr. XIE Weixin.

The Remuneration Committee had one meeting in 2020 which were attended by all the members of the Remuneration Committee, to review the remuneration packages of Directors and senior management of the Group. The attendance record of each member of the Remuneration Committee is set out below:

Name	Number of meetings attended
Mr. CHAN King Chung (<i>Chairman</i>)	1/1
Dr. HUANG Dazhan	1/1
Mr. XIE Weixin	1/1

No Director took part in any discussion about his or her own remuneration.

Pursuant to code provision B.1.5 of the Code, the remuneration of the members of the senior management by band for the year 2020 is set out below:

Remuneration bands (HK\$)	Number of persons
1 to 1,000,000	12
1,000,001 to 2,000,000	6
2,000,001 to 3,000,000	1
3,000,001 to 4,000,000	1
4,000,001 to 5,000,000	1
Total	21

CORPORATE GOVERNANCE REPORT

Audit Committee

The major responsibility of the Audit Committee is to conduct independent and objective audit of the truth and accuracy of the Group's economic operation and financial activities, financial policies, financial procedures, risk management, internal control, external audit, internal audit, financial information reporting and financial data and assist the Board in discharging its relevant duties.

The Audit Committee, comprising all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Dr. HUANG Dazhan and Mr. XIE Weixin, has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters.

During the Year, the Audit Committee held three meetings. The attendance record of each member of the Audit Committee is set out below:

Name	Number of meetings attended
Mr. CHAN King Chung (<i>Chairman</i>)	3/3
Dr. HUANG Dazhan	3/3
Mr. XIE Weixin	3/3

The Audit Committee has carefully reviewed and discussed the Company's half-yearly and annual results for the Year under review and system of internal control and has made recommendations for improvement. The Audit Committee has carried out and discharged its duties set out in Code.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors and senior management, making recommendations to the Board on the appointment and succession planning of Directors and senior management, and assessment of the independence of the INEDs.

The Nomination Committee comprises one executive Director and two INEDs, namely Mr. CHAN King Chung (the Chairman of the Committee), Mr. CHEN Jiajun, and Mr. XIE Weixin as members.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship and senior management by making reference to the skills, experience, professional knowledge, personal integrity and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary. The Nomination Committee held one meeting during the Year. The attendance record of the Nomination Committee meeting is set out below:

Name	Number of meetings attended
Mr. CHAN King Chung (<i>Chairman</i>)	1/1
Mr. XIE Weixin	1/1
Mr. CHEN Jiajun	1/1

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

Provision of Information to Directors

To assist the Directors in the discharge of their respective duties, the Company will provide every Director with a comprehensive induction program on the first occasion of his appointment, in which the Director will be provided with information on the Company's organisation and business, including the membership, duties and responsibilities of the Board, the various Board committees and the Management; corporate governance practices and procedures; and the latest financial information of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key members of the Management.

Throughout their tenure, the Directors will be provided with updates on the business of the Company, latest developments of the Listing Rules and other applicable legal and regulatory requirements, corporate social responsibility matters and other changes affecting the Company from time to time.

Continuous Professional Development

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors in the form of seminar and provision of training materials. A summary of training received by Directors during the Year according to the records provided by the Directors is as follows:

Name of Directors	Training on corporate governance, Directors' responsibilities and other relevant topics
Executive Directors	
Mr. CHEN Jiajun	√
Mr. MA Fei	√
Mr. XU Yibo	√
Mr. LAM Ting Fung Freeman	√
Non-executive Directors	
Mr. LIANG Rui (re-designated from an executive Director to a non-executive Director with effect from on 20 December 2020)	√
Mr. NG Wai Hung	√
Independent Non-executive Directors	
Mr. CHAN King Chung	√
Dr. HUANG Dazhan	√
Mr. XIE Weixin	√
Mr. GUO Jinghui	√

CORPORATE GOVERNANCE REPORT

Securities Transactions by Directors

The Company has adopted a code of conduct for securities transactions and dealings (the “**Code of Conduct**”) based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “**Model Code**”). The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all relevant persons as defined in the Model Code, including all the Directors, all other employees of the Company, and director and employees of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors who have confirmed in writing their compliance with the required standards set out in the Model Code and the Code of Conduct during the Year under review.

To supplement the Model Code, the Company has also put in place a disclosure of information policy for the handling and disclosure of inside information. The policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees a general guide in monitoring information disclosure and responding to enquiries. Further, control procedures have been implemented to ensure that the unauthorized access and use of inside information is strictly prohibited.

Corporate Accountability and Internal Control

The Board is responsible for the Group’s risk management and internal control system and has the responsibility for reviewing its effectiveness. Such system is designed to manage rather than eliminate the foreign exchange exposure of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Directors are responsible for the preparation of the financial statements of the Group. In the preparation of financial statements, the Hong Kong financial reporting standards have been adopted and the appropriate accounting policies have been consistently used and applied. The Board aims to present a clear and balanced assessment of the Group’s performance in the annual and interim reports to the Shareholders, and make appropriate disclosure and announcements in a timely manner. Pursuant to code provision C.1.1 of the Code, management would provide sufficient explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations.

The Directors conducted a review of the overall effectiveness of the internal control system of the Group for the Year. An internal audit department has been established to perform regular reviews and conduct audit of the Company and its subsidiaries and reported to the Board on any material issues and make recommendations to the Board. The work carried out by the internal audit department will ensure the internal controls are in place and functioning properly as intended.

The Board has taken further steps to review its internal control and established an independent board committee to look into and investigate the outstanding audit issues. The independent board committee is doing its best to identify and engage an independent legal advisers and internal control expert to conduct an overall review on the internal control of the Group.

CORPORATE GOVERNANCE REPORT

BT Corporate Governance Limited (formerly known as Corporate Governance Professionals Limited and Baker Tilly Hong Kong Risk Assurance Limited), an external professional adviser, was engaged by the Company in December 2020 to conduct an independent internal control review and to assist the management to improve the internal control system of the Group.

The Board also reviews, at least annually, the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function, internal audit function, risk management functions, and their training programmes and budget.

Procedures for Identifying, Assessing and Managing Material Risks

The Company has set up procedures to identify, assess and manage material risks based on assessment basis, assessment dimension, risk rating and dispersion.

Firstly, the Company grades risks from aspects of assessment basis, assessment dimension, risk rating and dispersion:

In respect of assessment basis: risks will be graded by reference to the risks currently controlled by the Company (without taking into account the risks that may be controlled by the Company in the future).

In respect of assessment dimension: each risk will be graded according to the possibility of their occurrence and their impacts. The possibility represents the probability that a risk may occur, the impact represents the economic, operating, reputation and other losses that the risk may incur, and both adopt five-mark systems. Value at risk = probability × impacts, and as a result, value at risks ranges from 1–25 and the higher the value at risk, the greater the risks.

In respect of risk rating: risks are classified into high, medium and low three levels in accordance with risk assessment standard based on the value at risk calculated.

In respect of dispersion: dispersion represents the extent that a group of figures deviate from the average number, and the smaller the dispersion, the more consistent the assessment results.

Through identifying and assessing risks, the risks faced by the Company are categorized into 4 primary risks including strategic risk, financial risk, operational risk and legal risk and 18 secondary risks.

Secondly, the Company calculates the final assessment results of each risk after considering the grade of each assessment, pursuant to which the material risks faced by the Company during the Year are assessed.

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the Year. The Directors' responsibilities for preparing the financial statements of the Company for the Year are set out in the Report of the Directors on page 45 of the Annual Report.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Board has adopted a “Board Diversity Policy” in relation to the nomination and appointment of new Directors, which sets out: the selection of board candidates shall be based on a range of diversity perspectives with reference to the Company’s business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the directors’ skills and experience to the Company’s business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

Company Secretary

All Directors have access to the advice and services of the company secretary. The company secretary reports to the Board, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and the management, Mr. Ma Fei and Mr. Tsang Hing Bun were appointed as the joint company secretaries of the Company in 2019 and have complied with the 15 hours training requirements under Rule 3.29 of the Listing Rules.

Pursuant to Rule 8.17 of the Listing Rules, a listed issuer must appoint a company secretary who meets the requirements under Rule 3.28 of the Listing Rules. Rule 3.28 of the Listing Rules provides that a listed issuer must appoint as its company secretary an individual who, in the opinion of the Stock Exchange, is capable of discharging the functions of company secretary of the listed issuer by virtue of his/her academic or professional qualifications or relevant experience. Mr. Ma currently does not possess the qualifications of a company secretary as required under Rules 3.28 and 8.17 of the Listing Rules. As the Company could not find any other suitable candidates internally or externally to replace the vacancy left by the resignation of Mr. Leung, the Company considers that it is in its best interests to appoint Mr. Ma as a joint company secretary of the Company. Mr. Ma joined the Group in 2006 and is primarily stationed in Shenzhen, where some of the Directors are also based in. Mr. Ma is familiar with the Group’s operations and has effectively been doing and assisting with, among other things, company secretarial work for the Company. The Company considers that the arrangement to appoint Mr. Ma to act as a joint company secretary and assist the Board, while appointing Mr. Tsang, who was nominated by an external corporate secretarial services firm engaged by the Company, to assist Mr. Ma in respect of the requirements of a company secretary of a listed company on the Stock Exchange is in the best interests of the Company. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted a waiver (the “**Waiver**”) on 29 October 2019 to the Company from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules for three years from the date of the Waiver (the “**Waiver Period**”) in relation to Mr. Ma’s eligibility to act as a joint company secretary of the Company, on the condition that:

- (i) Mr. Ma will be assisted by Mr. Tsang during the Waiver Period;
- (ii) the Company shall notify the Stock Exchange at the end of the Waiver Period for the Stock Exchange to re-visit the situation. The Stock Exchange expects that after the end of the Waiver Period, the Company will be able to demonstrate that Mr. Ma satisfies Rule 3.28 of the Listing Rules, having had the benefit of Mr. Tsang’s assistance such that a further waiver will not be necessary; and
- (iii) the Company will announce details of the Waiver, including its reasons and conditions.

CORPORATE GOVERNANCE REPORT

External Auditor

The Group has not changed external auditors in the past three years. Ernst & Young have been appointed as the External Auditor of the Group for the year under review. An amount of approximately HK\$3.29 million was charged by Ernst & Young for its audit services provided to the Group in 2020 (2019: HK\$3.37 million). The responsibilities of the external auditor with respect to financial reporting are set out in the section headed “Independent Auditor’s Report” on page 50 to 51 of this report.

During the Year, HK\$1.16 million (2019: HK\$0.69 million) was incurred as remuneration to Ernst & Young for the provision of non-audit services to the Group which represented tax advisory and agree-upon procedures services.

Communication with Shareholders and Shareholders’ Rights

The Company recognizes the importance of good communications with all Shareholders and investors. The Company’s annual general meeting is a valuable forum for the Board to communicate directly with the Shareholders. The Company provides information relating to the Company and its business in its annual and interim reports and also disseminates such information electronically through its website www.coolpad.com.hk and the website of the Stock Exchange. All Shareholders are given a minimum of 21 days’ notice of the date and venue of such annual general meeting. The Company supports the Code’s principle to encourage Shareholders’ participation.

Pursuant to the Article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The Group values feedback from the Shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed. Specific enquiries and suggestions by Shareholders can be sent in writing to the Board or the Company Secretary at the Company’s registered address or by e-mail to the Company’s email address at ir@yulong.com.

Constitutional Documents

During the Year under review, the Company has not made any changes to its Memorandum and Articles of Association. An updated version of the Company’s Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. CHEN Jiajun (Appointed on 17 January 2019)

Mr. Chen, aged 29, is an executive Director, the chief executive officer and chairman of the board of the Company. Mr. Chen has extensive investment experience and currently has a wide variety of investments in different industry sectors. Mr. Chen holds a master's degree in Science of Finance from the University of Southern California ("USC"). Before joining the Group, Mr. Chen served at Shenzhen Kingkey Banner Commercial Management Ltd. (深圳市京基百納商業管理有限公司) as vice-president from May 2015 to May 2018 and president from May 2018 to January 2019. Mr. Chen currently also serves as a Director of USC South China Alumni Club. Mr. Chen has been appointed as (i) a non-independent director of Shenzhen Kingkey Smart Agriculture Times Co., Ltd. 深圳市京基智農時代股份有限公司, the shares of which are listed on Shenzhen Stock Exchange (stock code: 000048.SZ), since 23 June 2020; and (ii) an executive director of Kingkey Financial International (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1468.HK), since 28 August 2020. As at the date of this report, Mr. Chen is the director of four subsidiaries of the Company and the general manager of two subsidiaries of the Company.

Mr. LAM Ting Fung Freeman (Appointed on 19 January 2018)

Mr. Lam, aged 41, is an executive Director, and was recognised as an International Registered Financial Practitioner in 2006. He served as a divisional manager in AIA for 12 years since 1998. He joined Kossilon Group as a director in 2008 and assisted the group in establishing a corporate financial service division. He served as a senior branch manager in AXA in 2010 and was admitted as a life member of the Million Dollar Round Table in 2012. Mr. Lam has 10 years of experience in corporate financial services, providing professional advice to companies regarding asset restructuring and financing. He also has 15 years of experience in financial planning and asset management, having managed an asset investment with a value of HK\$300 million in 2007. He also has 20 years of experience in the sales of insurance and wealth management products, leading a team of over 60 people. As at the date of this report, Mr. Lam does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

Mr. XU Yibo (Appointed on 29 October 2019)

Mr. Xu, aged 46, is an executive vice president of the Group, responsible for R&D system supply chain of the Company. Mr. Xu obtained a bachelor's degree in electromagnetic field from Xidian University (西安電子科技大學). Mr. Xu joined the Group in July 1998 and has about more than 15 years of experience in mobile communication, terminal security, cloud computing and mega data technology field, making contribution in standard work in more than 10 international and domestic standards organizations, such as 3GPP, IETF, IEEE, IMI-2020(5G) Promotion Group, etc. Mr. Xu participated in the research and development of dual-standby technique which led to win the second prize of National Science and Technology Progress which is the highest award in the terminal field. As at the date of this report, Mr. Xu is the director of ten subsidiaries of the Company and the general manager of five subsidiaries of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. MA Fei (Appointed on 29 October 2019)

Mr. Ma, aged 38, is the chief financial officer and joint company secretary of the Group. Mr. Ma obtained a bachelor's degree in accounting from Xi'an Jiaotong University. Mr. Ma is primarily responsible for the finance and investor relations of the Group. Mr. Ma has more than 10 years of experience in accounting and finance. Mr. Ma joined the Group in 2006, and has served successively as financial manager, vice director of investor relations department. From 2018 to 2019, Mr. Ma won the Shenzhen Innovation Talent Award for two consecutive years. As at the date of this report, Mr. Ma is the director of five subsidiaries of the Company, the supervisor of 2 subsidiaries of the Company and the general manager of two subsidiaries of the Company.

Non-Executive Directors

Mr. NG Wai Hung (Appointed on 19 January 2018)

Mr. Ng, aged 57, is a non-executive Director, and is a practicing solicitor and a partner in Lu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the areas of securities law, corporate law and commercial law in Hong Kong and China trades and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies in Hong Kong. Mr. Ng is currently an independent non-executive director of three companies listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), namely China Star Cultural Media Group Limited (currently known as Lajin Entertainment Network Group Limited, stock code: 8172), Xinyi Automobile Glass Hong Kong Enterprises Limited (stock code: 8328) and 1957 & Co. (Hospitality) Limited (stock code: 8495) (all being companies listed on the Stock Exchange) since March 2015, June 2016 and November 2017 respectively. Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited, stock code: 663), KTP Holdings Limited (currently known as Ares Asia Limited, stock code: 645), Tomorrow International Holdings Limited (currently known as Talent Property Group Limited, stock code: 760), Perception Digital Holdings Limited (currently known as HongDa Financial Holding Limited, stock code: 1822), HyComm Wireless Limited (currently known as Qingdao Holdings International Limited, stock code: 499), Tech Pro Technology Development Limited, stock code: 3823), GOME Retail Holdings Limited (stock code: 493), Kingbo Strike Limited (stock code: 1421), Trigiant Group Limited (stock code: 1300), Fortune Sun (China) Holdings Limited (stock code: 352), On Time Logistics Holdings Limited (stock code: 6123) and Sustainable Forest Holdings Limited (stock code: 723) (all being companies listed on the Stock Exchange) and resigned in February 2010, February 2011, January 2012, August 2014, September 2014, March 2017, May 2017, June 2017, August 2017, September 2017, December 2017 and December 2017 respectively. As at the date of this report, Mr. Ng does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LIANG Rui (Re-designated from an executive Director to a non-executive Director on 20 December 2020)

Mr. Liang, aged 45, is a non-executive Director, and is currently a president of Shenzhen Shuibeij Jewelry Group. Mr. Liang obtained a doctoral degree of Technical Economics and Management from the School of Economics and Business Administration of Chongqing University in 2007 and a postdoctoral degree in Applied Economics from the School of Economics and Finance of Xi'an Jiaotong University in 2009. From January 2000 to October 2014, he worked in the Shenzhen Luohu District People's Government, serving as an officer in the Education Bureau, deputy director-general of the State Bureau for Letters and Calls, director-level deputy director of the district (governmental) committee office, and director of the Bureau of Civil Administration. From September 2014 to November 2017, he served as Secretary and director of the Shenzhen Nanhu Sub-district Office. Mr. Liang has been appointed as an executive director and Chief Executive Officer of Carrianna Group Holdings Company Limited (佳寧娜集團控股有限公司), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 0126.HK) since 2 January 2021. As at the date of this report, Mr. Liang is the director of one subsidiary of the Company.

Independent Non-Executive Directors

Mr. CHAN King Chung

Mr. Chan, aged 58, is an independent non-executive Director and joined the Group in November 2004. He obtained a bachelor's degree in business administration and accountancy from the Chinese University of Hong Kong in 1987 and City University of Hong Kong in 1993, respectively. Mr. Chan also obtained a Master degree in accountancy and business administration. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Company Secretaries. Mr. Chan has more than 20 years of experience in corporate governance, management and financial controlling. As at the date of this report, Mr. Chan does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

Dr. HUANG Dazhan

Dr. Huang, aged 63, is an independent non-executive Director and joined the Group in November 2004. Dr. Huang obtained his doctorate degree from the Victoria University of Manchester, England, the United Kingdom in 1993. Dr. Huang currently serves at China Merchants Group. As at the date of this report, Dr. Huang does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. XIE Weixin

Mr. Xie, aged 79, is an independent non-executive Director and joined the Group in November 2004. Mr. XIE graduated from the Department of Electronics Engineering of Xi'an University of Electronics Technology in 1965. Mr. Xie was a visiting scholar in University of Pennsylvania during the period from 1981 to 1983 and from 1989 to 1990, respectively. He was honored as one of the national outstanding middle-aged and young experts. Mr. Xie currently is the chairman of the Academic Committee of Shenzhen University, a professor in College of Information Engineering of Shenzhen University, and Mr. Xie was an independent non-executive director of Shenzhen Sed Industry Co. Limited (the shares of which are listed on the Shenzhen Stock Exchange, Stock Code: 000032) from 2010 to 2014. As at the date of this report, Mr. Xie does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

Mr. GUO Jinghui

Mr. Guo, aged 49, obtained a bachelor's degree in radio technology (無線電技術) from Taiyuan University of Technology. From November 2007 to August 2009, he served as the supervisor of Shenzhen Guangming New District Administration Human Resources Office (深圳市光明新區人力資源管理辦公室主任). From August 2009 to April 2013, he served as a member of the Party Working Committee and the head of the Organization and Personnel Bureau of Shenzhen Guangming New District (深圳市光明新區黨工委委員、組織人事局局長). From April 2013 to May 2014, he served as a standing committee member and the head of the Organization Department of the Shenzhen Nanshan District committee (深圳市南山區委常委、組織部長). From May 2014 to February 2018, he served as the deputy secretary of the party committee (黨委副書記) of Guosen Securities Company Limited. As at the date of this report, Mr. Guo does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. CAO Jingsheng

Mr. Cao, aged 45, is a senior vice president of the Group, responsible for the smart hardware and accessories business of the Company. Mr. Cao obtained a bachelor's degree in computer science from Harbin Institute of Technology (哈爾濱工業大學). During his work, he participated in the AMP advanced management training of Peking University HSBC Business School. Mr. Cao joined the Group in June 2018. The smart hardware and accessory products created by his team have become the head products on the Amazon website in the United States. At the same time, the team has expanded online business of smart hardware and accessories to Germany, UK, Japan and other countries and has enabled the rapid development of the Company's global online business.

Mr. Michael CHUANG

Mr. Chuang, aged 45, the CEO of Group's US branch. He joined Coolpad in 2019, and is responsible for the overall operation of Coolpad in the US market. After graduating from UCSD (University of California, San Diego) with a bachelor's degree in biology in 1999, Michael Chuang studied for a master's degree in computer science. From 2000 to 2006, he worked at Nokia, responsible for global CDMA product testing and testing tool development, and managed the testing teams in the United States, Beijing, and India. During this working experience, Michael Chuang developed the first generation of Nokia automated user interface testing tools. Before joining Coolpad, he had served as senior executive vice president of Huawei from 2007 to 2015, responsible for sales and marketing in North America. In 2010, the first Huawei smartphone was listed in the United States. From 2011 to 2013, the average sales of Huawei smart machine were US\$1 billion, and its market share in prepayment reached up to 40%.

Mr. LIU Chaohui

Mr. Liu, aged 47, joined Coolpad in March 2019 and is currently the group vice president. He is responsible for the design, engineering, cost, investment attraction and operation of the industrial park. In 1996, he graduated from Southeast University, majoring in building management engineering, with a bachelor's degree. Mr. Liu has obtained the title of senior engineer and the qualification of national registered cost engineer. From July 2020 to October 2013, Mr. Liu served as Shenzhen Regional Cost Control Director of Shenzhen Zhenye Group Co., Ltd. He was responsible for the cost of company's real estate project and bidding and purchasing management. From November 2013 to March 2014, Mr. Liu served as the Deputy General Manager of the Cost Management Center of Shenzhen Yitian Group Co. He was responsible for the cost of company's real estate project and bidding and purchasing management. From March 2014 to February 2019, Mr. Liu served as the general manager and vice president of Shenzhen Kingkey Real Estate Co., Ltd. He was responsible for the cost management of the company's real estate project.

Save as disclosed above, none of the above Directors or senior management of the Company has any relationship with any Directors or senior management of the Company.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the consolidated financial statements of the Group for the Year to the shareholders.

Principal Activities

The Group is a wireless solution and equipment provider. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year under review.

Key Risks and Uncertainties

Risks and uncertainties involved in the business operations of the Group may affect the Group's financial conditions or growth prospects. The Group has been focusing on the control of risks and uncertainties with the aim of understanding and addressing the concerns of stakeholders.

Key risk factors and uncertainties affecting the Group include profit risks, the risks of instability in foreign markets and the risks of group business being affected by the COVID-19 pandemic. The potential risks of instability in foreign markets arise from the potential risks of U.S. market protectionism. The potential risks of group business being affected by the COVID-19 pandemic arise from the COVID-19 pandemic in the Group's key sales regions (the US market) was still severe, and it lead to a decrease in sales.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown above which are not known to the Group or which may not be material now but could become material in the future.

Results, Dividends and Distribution

The Group's profit for the Year and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 52 to 174.

Considering daily operation needs after the restructuring of the Group, the Directors do not recommend the payment of any final dividend for the Year.

Annual General Meeting

The forthcoming annual general meeting of the Company will be held on 29 June 2021.

REPORT OF THE DIRECTORS

Closure of Register of Members

For the purpose of determining shareholders' entitlement to attend and vote at the said annual general meeting, the register of members of the Company will be closed from 24 June 2021 to 29 June 2021 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the said annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 23 June 2021.

Charitable Donations

In the Year under review, the Group's has no charitable donations. (2019: RMB6,600,000).

Summary of Financial Information

The following is a published summary of the consolidated financial results and of the consolidated assets and liabilities of the Group for the last five financial years.

Results

	2020	Year ended 31 December			
		2019 (Restated)	2018	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing Operations:					
Revenue	811,757	1,858,090	1,277,164	3,378,077	7,969,477
(Loss)/profit before tax	(299,063)	118,111	(419,408)	(2,702,251)	(4,356,068)
Income tax (expense)/credit	(45,965)	(3,299)	8,746	(20,825)	(45,352)
(Loss)/profit for the year	(345,028)	114,812	(410,662)	(2,723,076)	(4,401,420)
Discontinued Operation:					
Loss for the year from a discontinued operation	(48,800)	(2,718)	–	–	–
	(393,828)	112,094	(410,662)	(2,723,076)	(4,401,420)
Attributable to owners of the Company	(393,986)	112,321	(409,321)	(2,674,457)	(4,379,631)

Note:

The results of the discontinued operation prior to 2019 have not been restated or reclassified. Therefore, the results prior to 2019 may not be comparable to 2019 and 2020.

REPORT OF THE DIRECTORS

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the financial statements.

Investment Properties

Details of movements in the investment properties of the Group are set out in note 15 to the financial statements.

Share Capital and Share Options

The Share Option Scheme became effective on 23 May 2014 after an ordinary resolution to approve the adoption of the same was passed by the Shareholders at the annual general meeting of the Company held on the same day.

An option under the Share Options Scheme may be accepted by a participant within 28 days from the date of the offer of grant of the option. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

As at 31 December 2020, the total number of securities available for issue under the Share Option Scheme was 583,340,748 Shares (representing approximately 8.93% of the issued share capital of the Company as at 31 December 2020).

The Company confirms that, among the grantees under the Share Option Scheme, save as disclosed herein: (i) there are no participants with options granted in excess of the individual limit; (ii) there are no employees working under employment contracts that are regarded as “continuous contracts” for the purposes of the Employment Ordinance; and (iii) there are no suppliers of goods or services.

Details of movements in the Company’s share capital and share options during the Year under review are set out in notes 32 and 33 to the financial statements, respectively.

REPORT OF THE DIRECTORS

Share Award Plan

On 3 March 2008, the Directors approved the adoption of a share award plan (the “**Share Award Plan**”) to recognise and reward the contribution of certain employees to the growth and development of the Group through an award of the Company’s shares. The Share Award Plan became effective on 3 March 2008 and will remain in force for 10 years from that date. Accordingly, the Share Award Plan was expired on 10 March 2018.

The Group has appointed a trustee (the “**Trustee**”) for the purposes of administering the Share Award Plan. The Trustee was notified by the Directors in writing upon making of an award to an eligible employee under the Share Award Plan. Upon the receipt of such notice, the Trustee has set aside the appropriate number of awarded shares out of a pool of shares.

The Trustee purchased in aggregate 19,024,000 shares of the Company at a total cost (including related transaction costs) of approximately HK\$3,799,000 during the period from October 2008 to January 2009.

As at the end of the year 2014, the Group had already awarded all the 19,024,000 shares of the Company to its directors or employees pursuant to the Share Award Plan.

Pension Scheme

Particulars of the Group’s pension schemes are set out in note 2.4 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company’s existing Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Permitted Indemnity Provision

The Company has arranged for appropriate insurance cover for Directors’ and officers’ liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

REPORT OF THE DIRECTORS

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

Reserves

Details of movements in the reserves of the Company and of the Group during the Year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK\$1,793,113,000. The Board do not recommend the payment of any final dividend for the Year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK\$1,552,838,000 in total as at 31 December 2020, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Compliance with Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements. Compliance procedures have been enhancing to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China, Hong Kong and United States, while the Company itself was incorporated in the Cayman Islands and listed on the Stock Exchange in Hong Kong. Our establishment and operations accordingly shall comply with relevant laws and regulations in Hong Kong, Cayman Islands and other business operating areas. The Group has established compliance procedures to ensure its compliance with applicable laws, regulations and normative legal documents that are applicable (especially to the main business). If there is any change in the applicable laws, regulations and normative legal documents of the main business, the Group will notify relevant staff and relevant operating teams from time to time.

Save as disclosed in the section head "Application of Corporate Governance Principles", as far as the Company is aware of, the Group has complied in material respects with the relevant laws and regulations which have a significant impact on the business and operations of the Company during the Year.



REPORT OF THE DIRECTORS

Environmental Policies and Performance

The Group considers the importance of environmental affairs and believes business development and environment affairs are highly related. The Group recognizes its corporate responsibility environmental and social sustainability and has therefore taken the initiatives with a view to reducing energy consumption, food and paper waste. The Group implements green office practices such as double-printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliances. Through the initiative taken to control electricity consumption by using energy-efficient retrofits and air-conditioning and lighting control measures in workplaces, we have seen continued improvement in reducing the use of electricity. The Group also emphasized the social responsibility of eco-friendly production. Going forward, the Group will continue to promote environmental and social sustainability through various initiatives consistent with its policies and relevant laws and regulations.

For details, please refer to the report of “Environmental, Social and Governance”.

Major Customers and Suppliers

In the Year under review, sales to the Group’s five largest customers accounted for approximately 77% of the total sales for the Year and sales to the largest customer included therein amounted to approximately 40%. Purchases from the Group’s five largest suppliers accounted for approximately 39% of the total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 14%.

None of the Directors or any of their close associates or any shareholders which, to the best knowledge of the Directors, own more than 5% of the Company’s issued share capital had any beneficial interest in the Group’s five largest customers and/or suppliers.

Relationships with Customers and Suppliers

The Group understands that it is important to maintain good relationship with its suppliers and customers to fulfil its long-term goals and maintain the leading position in the market. To maintain its core competitiveness and brand dominant status, the Group aims at delivering constantly high standards of quality in the service to its customers.

Management Contracts

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or subsisting during the Year.

REPORT OF THE DIRECTORS

Directors

The Directors of the Company during the Year under review and up to the date of this report were:

Executive Directors

Mr. CHEN Jiajun
 Mr. MA Fei
 Mr. XU Yibo
 Mr. LAM Ting Fung Freeman

Non-Executive Directors

Mr. LIANG Rui (re-designated from an executive Director to a non-executive Director with effect from 20 December 2020)
 Mr. NG Wai Hung

Independent Non-Executive Directors

Mr. CHAN King Chung
 Dr. HUANG Dazhan
 Mr. XIE Weixin
 Mr. GUO Jinghui

Under the provisions of the Articles of Association, one-third of the Directors of the Company are subject to retirement by rotation and re-election at each annual general meeting.

In accordance with the Articles of Association, Mr. CHEN Jiajun, Mr. LAM Ting Fung Freeman, Mr. NG Wai Hung and Mr. MA Fei will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. Besides, Mr. LIANG Rui was appointed by the board as non-executive Director on 20 December 2020. He shall retire from office, but being eligible, have offered himself for re-election at the forthcoming annual general meeting. Save for the aforesaid, the other remaining directors of the Company would continue in office.

The Company has received from each of the INEDs an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the board of Directors still considers each of the INEDs to be independent from the Company.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 27 to 31 of the Annual Report.

Directors' Service Contracts

Mr. Liang Rui, re-designated from an executive Director to a non-executive Director, and has entered into a service agreement of non-executive Director with the Company dated 20 December 2020 for a term of three years commencing from 20 December 2020.

None of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

Directors' Remuneration

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Transaction, Arrangement or Contract of Significance

Save as disclosed in note 30 and note 40 to the financial statements, neither Director nor entity connected with the Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group subsisting at any time during the Year under review or at the end of the Year under review to which the Company or any of its subsidiaries was a party.

Controlling Shareholders' Interests in Transaction, Arrangement or Contract of Significance

Save as disclosed in note 40 to the financial statements, no controlling shareholders of the Company had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group subsisting at any time during the Year under review or at the end of the Year under review to which the Company or any of its subsidiaries was a party.

Continuing Connected Transactions

During the year ended 31 December 2020, Yulong Shenzhen, an indirect wholly-owned subsidiary of the Company had entered into the property management services agreement ("**Property Management Services Agreement**") with Shenzhen Kingkey Property Management Co., Ltd ("**Shenzhen Kingkey**"). Accordingly, Shenzhen Kingkey is a connected person of the Company and the transactions contemplated under the Property Management Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has complied with the annual review and reporting requirements under Chapter 14A of the Listing Rules.

The Group seeks to engage a professional property management company to provide property management services, which typically include security, cleaning, landscaping, repair and maintenance of common area and shared facilities, in order to ensure the provision of sound property management services and the maintenance of good building conditions and environment to enhance satisfaction of property owners and tenants and enhance property value. Taking into account the Shenzhen Kingkey is reputable in the PRC for providing reliable, efficient and satisfactory property management services to property developers in the PRC, as compared to other services providers who are independent third parties, the Company believes that it generally maintains better and more efficient communication with the Group and more thorough understanding of the conditions of the Group's property projects and the requirements of the services needed. The detail information of the continuing connected transactions was as follows:

Purchase of the property management service of Coolpad Information Harbor Phase 1 Building

Background:

From 1 September 2020, Yulong Shenzhen, an indirect wholly-owned subsidiary of the Company, purchases the property management service from Shenzhen Kingkey Property Management Co., Ltd., a connected person.

Particulars of the Property Management Services Agreement together with the total consideration for the year ended 31 December 2020 are disclosed below as required under the Listing Rules.

REPORT OF THE DIRECTORS

Nature of transaction:	Purchase of property management service, including repairs and maintenance of communal areas and facilities, cleaning, traffic safety management, security and greening services, for Coolpad Information Harbor No.1 Building from Shenzhen Kingkey Property Management Co., Ltd.
Terms:	The purchase price of the management service is RMB25 (tax inclusive) per month per square meter and other extra service expense.
Annual cap (tax inclusive):	RMB30,000,000
Total consideration for the Year (tax inclusive):	RMB8,736,956

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transaction set above for the year ended 31 December 2020 has followed the pricing principles of such continuing connected transactions.

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transaction mentioned above conducted in the Year was entered into on the following basis:

- (a) in the ordinary and usual course of the business of the Group;
- (b) on normal commercial terms or better; and
- (c) according to the relevant agreements governing these transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have confirmed that (1) the continuing connected transactions have been approved by the Company's Board of Directors; (2) there is a written agreement in place governing the continuing connected transactions and the transactions have been entered into in accordance with such agreements. No side agreement has been entered into in respect of any transaction; and (3) the aggregate annual values of the continuing connected transactions have not exceeded the annual caps of relevant amount. The auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transaction disclosed by the Group as above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

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

As at 31 December 2020, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long Positions in Shares of the Company

Name of director	Notes	Directly beneficially owned	Through spouse or minor corporation	Through controlled corporation	Beneficiary of a trust	Founder of a trust	Share Option	Total	Approximate percentage of the Company's issued share capital as at
									31 December 2020
Mr. CHEN Jiajun	1	-	-	897,437,000	-	-	-	897,437,000	13.74
Mr. CHAN King Chung	2	441,600	-	-	-	-	1,800,000	2,241,600	0.03
Dr. HUANG Dazhan	2	288,000	-	-	-	-	1,800,000	2,088,000	0.03
Mr. XIE Weixin	2	384,000	-	-	-	-	1,800,000	2,184,000	0.03
Mr. MA Fei	2	-	-	-	-	-	8,000,000	8,000,000	0.12
Mr. XU Yibo	2	3,000,000	-	-	-	-	24,000,000	27,000,000	0.41
Mr. LIANG Rui	2	-	-	-	-	-	30,000,000	30,000,000	0.46
Mr. NG Wai Hung	2	-	-	-	-	-	2,800,000	2,800,000	0.04
Mr. LAM Ting Fung									
Freeman	2	-	-	-	-	-	2,800,000	2,800,000	0.04
Mr. GUO Jinghui	2	-	-	-	-	-	1,800,000	1,800,000	0.03

Notes:

- The 897,437,000 shares are directly held by Great Shine Investment Limited (formerly known as Kingkey Financial Holdings (Asia) Limited), which is 100% directly held by Great Splendid Holdings Limited. Mr. Chen Jiajun is the director of Great Splendid Holdings Limited and hold 100% shares of Great Splendid Holdings Limited., Therefore, Mr. Chen Jiajun is indirectly interested in the 897,437,000 shares of the Company.
- The interests of these Directors are in the underlying Shares of the options granted to the relevant Directors by the Company under the share option scheme adopted by the Company on 23 May 2014.

REPORT OF THE DIRECTORS

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

As at 31 December 2020, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions in Shares of the Company

Name	Notes	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Mr. CHEN Jiajun	1	897,437,000	Interest of controlled corporation	897,437,000	13.74
Mr. TU Erfan	2	689,412,000	Interest of controlled corporation	689,412,000	10.55
Mr. QIN Tao	3	500,000,000	Interest of controlled corporation	500,000,000	7.65
Mr. GUO Deying	4	462,889,484	Founder of a discretionary trust	463,372,484	7.09
		483,000	Through controlled corporation		
Great Shine Investment Limited	1	897,437,000	Beneficial owner	897,437,000	13.74
New Prestige Developments Limited	2	689,412,000	Beneficial owner	689,412,000	10.55
Allove Group Limited	3	500,000,000	Beneficial owner	500,000,000	7.65
Data Dreamland Holding Limited ("Data Dreamland")	4	462,889,484	Beneficial owner	462,889,484	7.08
HSBC International Trustee Limited ("HSBC Trustee")	5	463,889,484	Trustee	463,889,484	7.10
Zeal Limited	6	551,367,386	Beneficial owner	551,367,386	8.44

REPORT OF THE DIRECTORS

Notes:

1. The 897,437,000 shares are directly held by Great Shine Investment Limited (formerly known as Kingkey Financial Holdings (Asia) Limited), which is 100% directly held by Great Splendid Holdings Limited. Mr. Chen Jiajun is the director of Great Splendid Holdings Limited and hold 100% shares of Great Splendid Holdings Limited., Therefore, Mr. Chen Jiajun is indirectly interested in the 897,437,000 shares of the Company.
2. As disclosed in the announcement of the Company dated 19 December 2019, 800,000,000 Shares were allotted and issued to New Prestige Developments Limited ("**New Prestige**"), which is ultimately owned by Mr. TU Erfan. As at 31 December 2020, New Prestige holds 689,412,000 Shares.
3. The 500,000,000 shares were directly held by Allove Group Limited and Allove Group Limited is ultimately owned by Mr. Qin Tao.
4. The entire issued share capital of Data Dreamland is held by Barrie Bay (PTC) Limited. Barrie Bay (PTC) Limited is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo Deying and Ms. Yang Xiao (the spouse of Mr. Guo Deying) and the beneficiary objects of which include the children of Mr. Guo Deying and Ms. Yang Xiao. Mr. Guo Deying is taken to be interested in the 483,000 shares held by Wintech Consultants Limited as he is one out of the three directors of Wintech Consultants Limited and the other two directors are accustomed to act in accordance with Mr. Guo Deying's direction.
5. The 462,889,484 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay (PTC) Limited, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee. The rest 1,000,000 shares were held by HSBC Trustee privately as the trustee.
6. The 551,367,386 shares were directly held by Zeal Limited, and Zeal limited is wholly owned by Shenzhen LETV Bridge Merger Acquisition Fund Investment Management Enterprise (Limited Partnership) (深圳市樂視鑫根併購基金投資管理企業(有限合夥)).

Save as disclosed above, as at 31 December 2020, so far as the Directors are aware, there are no other persons, other than the Directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

The following table discloses movements in the Company's share options outstanding during the Year:

Name or category of participant	Number of share options					As at 31 December 2020	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$ per Share (Note 5)	Price of the Company's listed shares immediately before the grant date of options HK\$ per Share	The weighted average closing price of the Company's listed shares for the five business days immediately preceding the date of grant HK\$ per Share
	As at 1 January 2020	Granted during the Year	Exercised during the Year	Expired/lapsed during the Year	Forfeited/cancelled during the Year						
Employees											
In aggregate – granted on 22 Jan 2015	6,744,000	-	-	6,744,000	-	-	22-01-15	22-1-16 to 22-1-20 (Note 2)	1.492	1.490	1.492
In aggregate – granted on 22 Jan 2015	200,000	-	-	-	-	200,000	22-01-15	22-1-17 to 22-1-21 (Note 4)	1.492	1.490	1.492
In aggregate – granted on 16 Oct 2015	6,496,000	-	-	2,504,000	3,992,000	-	16-10-15	16-10-16 to 16-10-20 (Note 2)	1.620	1.600	1.576
In aggregate – granted on 13 Nov 2019	150,000,000	-	-	-	-	150,000,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
In aggregate – granted on 13 Nov 2019	257,000,000	-	-	-	132,600,000	124,400,000	13-11-19	14-11-20 to 13-11-24 (Note 2)	0.2242	0.218	0.2242
Subtotal	420,440,000	-	-	9,248,000	136,592,000	274,600,000					
Directors											
In aggregate – granted on 22 Jan 2015											
Mr. Ma Fei	256,000	-	-	256,000	-	-	22-01-15	22-1-16 to 22-1-20 (Note 2)	1.492	1.490	1.492
In aggregate – granted on 22 Jan 2015											
Mr. Xu Yibo	2,000,000	-	-	-	-	2,000,000	22-01-15	22-1-17 to 22-1-21 (Note 4)	1.492	1.490	1.492
In aggregate – granted on 16 Oct 2015											
Mr. Ma Fei	592,000	-	-	592,000	-	-	16-10-15	16-10-16 to 16-10-20 (Note 2)	1.620	1.600	1.576
In aggregate – granted on 16 Oct 2015											
Mr. Xu Yibo	10,000,000	-	-	-	-	10,000,000	16-10-15	16-10-17 to 16-10-21 (Note 4)	1.620	1.600	1.576
In aggregate – granted on 13 Nov 2019											
Mr. Liang Rui	30,000,000	-	-	-	-	30,000,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Mr. Xu Yibo	12,000,000	-	-	-	-	12,000,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Mr. Ma Fei	8,000,000	-	-	-	-	8,000,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Mr. Lam Ting Fung Freeman	2,800,000	-	-	-	-	2,800,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Mr. Ng Wai Hung	2,800,000	-	-	-	-	2,800,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Dr. Huang Dazhan	1,800,000	-	-	-	-	1,800,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Mr. Xie Weixin	1,800,000	-	-	-	-	1,800,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Mr. Chan King Chung	1,800,000	-	-	-	-	1,800,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Mr. Guo Jinghui	1,800,000	-	-	-	-	1,800,000	13-11-19	14-5-20 to 13-5-24 (Note 3)	0.2242	0.218	0.2242
Subtotal	62,800,000	-	-	-	-	62,800,000					
Subtotal	75,648,000	-	-	848,000	-	74,800,000					
Total	496,088,000	-	-	10,096,000	136,592,000	349,400,000					

REPORT OF THE DIRECTORS

Notes to the reconciliation of share options outstanding during the Year:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised a year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
3. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised half a year after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
4. For options granted with exercisable date determined based on the grant date of options, the first 25% of the total options can be exercised two years after the grant date, and each 25% of the total options will become exercisable in each subsequent year.
5. The exercise price of a share option is the amount that the employee is required to pay to obtain each share under the option.

Audit Committee

The Audit Committee, which currently comprises three INEDs, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's annual results for the Year.

Directors' Interests in a Competing Business

As at 31 December 2020, none of the Directors or any of their respective associates had any interest in any business which competes or likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

Material Legal Proceedings

Save as disclosed in note 37 to the financial statements, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company during the Year as far as the Board was aware of.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the percentage of shares of the Company in public hands is in compliance with the prescribed level of the minimum public float as set out in Rule 8.08 of the Listing Rules.

Operation Risk

On 11 March 2020, the World Health Organization officially described the novel Coronavirus outbreak as a COVID-19 pandemic. The COVID-19 pandemic had a significant adverse impact on the business performance of the Group for the Year. On the one hand, the COVID-19 pandemic in the Group's key sales regions (the US market) was still severe, which resulted in the delay in new product launch in the US and decrease in sales. On the other hand, affected by the COVID-19 pandemic, supply shortages and price increases of certain raw materials have caused the Company's costs to rise. In response to the continuing impact of the COVID-19 pandemic on the US market and in line with the Group's development direction, the Group has gradually adjusted its business development direction for the Year, and gradually shifted from the overseas market to the Chinese market to reduce operational risks.

REPORT OF THE DIRECTORS

Foreign Exchange Exposure

During the Year, the Group has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the units' functional currencies, where the receivables and payables are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD and EUR which may affect the Group's performance and asset value for the Year. The Group has not entered into any derivative contracts to hedge against the risk in the year 2020.

Employees and Remuneration Policy

During the year ended 31 December 2020, the Group's staff costs (including directors' remuneration) amounted to approximately HK\$207.58 million (2019: HK\$178.77 million). The remuneration of the Group's employees was commensurate with their responsibilities and market rates, with discretionary bonuses and training given on a merit basis. As of 31 December 2020, the Group had 604 employees (2019: 668 employees).

Significant Investments

Save as disclosed in note 25 to the financial statements, there were no significant investments held by the Group as at 31 December 2020.

Material Acquisitions and Disposal

Save as disclosed in notes 34 and 35 to the financial statements, the Company and its subsidiaries had no material acquisition and disposal transactions during the Year under review.

Directors' Responsibilities for the Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the Year. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

Events after the Reporting Period

Details of the significant events of the Group after the reporting period are set out in note 45 to the financial statements.

Auditor

Ernst & Young will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Coolpad Group Limited

Chen Jiajun

Executive Director
Chief Executive Officer
Chairman

26 March 2021, Hong Kong

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Coolpad Group Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Coolpad Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 174, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 2.1 to the consolidated financial statements, which indicates that as of 31 December 2020, the Group's current liabilities exceeded its current assets by approximately HK\$1,531 million. As stated in note 2.1, this event or condition, along with other matters as set forth in note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

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.

Key audit matter

How our audit addressed the key audit matter

Impairment of non-current assets

The continuing operating performance related to mobile phones business of the Group in recent years was the factor heightened the risk of impairment associated with the Group's non-current assets carried at historical cost, which comprised property, plant and equipment (including construction in progress), right of use assets and intangible assets with carrying amounts of HK\$62,890,000, HK\$89,951,000 and HK\$6,867,000, respectively, as at 31 December 2020.

During the year ended 31 December 2020, impairment loss of approximately HK\$22,611,000 was recorded to reduce the carrying amounts of certain property, plant and equipment to the recoverable amounts.

Management measures the respective recoverable amounts which are the higher of fair value less costs of disposal and their value in use. The recoverability of these assets is dependent on macroeconomic assumptions about future demands of smartphones and other intelligent devices, discount rates and exchange rates as well as internal assumptions related to future production levels and operating costs. These estimates are particularly significant due to the uncertain economic outlook, product price volatility, forecasted future production and market demand. The outcome of impairment assessment can vary significantly when different assumptions are applied.

The relevant disclosures for the Group's non-current assets are included in notes 3, 14, 16 and 17 to the consolidated financial statements.

We obtained and reviewed management's impairment assessment of the non-current assets by comparing the carrying values of the non-current assets to their respective recoverable amounts.

For the recoverable amounts measured based on fair value less costs of disposal, we involved our valuation specialists to obtain an independent estimate of market values of these assets and compared to the respective carrying amounts.

For recoverable amounts measured based on value in use, we assessed the assumptions and methodologies adopted by management, including budgeted prices based on the market trend and the budgeted sales quantity based on the existing production capacity. We involved our valuation specialists to assist us evaluating the discount rate. We evaluated forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective assets and the business development plan.

We assessed the adequacy of disclosures about impairment of non-current assets in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of investment properties</i></p> <p>As at 31 December 2020, the Group had investment properties of RMB2,287,583,000 which represented 53% of the total assets and were measured at fair value. The valuation of investment properties was determined by independent qualified valuers engaged by management. The valuation of the investment properties is important to our audit as the carrying amount of investment properties is significant and the valuation involves significant judgment and estimates.</p> <p>The relevant disclosures for the Group's investment properties are included in notes 3 and 15 to the consolidated financial statements.</p>	<p>We considered the objectivity, independence and expertise of the independent qualified valuers.</p> <p>We assessed the sources and appropriateness of the property related data, including market monthly rental, discount rate and market unit sale rate, which have been used as inputs for the valuations.</p> <p>We involved our internal valuation specialists to assist us in analysing the valuations and challenging the underlying assumption used for the valuations.</p> <p>We assessed the adequacy of disclosures relating to the valuations of these investment properties in the consolidated financial statements.</p>

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 HKFRSs issued by the HKICPA 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.

INDEPENDENT AUDITOR'S REPORT

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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.

INDEPENDENT AUDITOR'S REPORT

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

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, actions taken to eliminate threats or safeguards applied.

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 Hui Kin Fai, Stephen.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	811,757	1,858,090
Cost of sales		(689,703)	(1,426,205)
Gross profit		122,054	431,885
Other income and gains	5	287,259	198,631
Impairment of investments in associates	19	–	(3,196)
Selling and distribution expenses		(200,243)	(269,105)
Administrative expenses		(296,430)	(247,143)
Other expenses		(121,397)	(58,575)
Finance costs	7	(37,000)	(44,197)
Share of profits and losses of:			
Joint ventures		(5,774)	129,049
Associates		(47,532)	(19,238)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	(299,063)	118,111
Income tax expense	10	(45,965)	(3,299)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		(345,028)	114,812
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	11	(48,800)	(2,718)
(LOSS)/PROFIT FOR THE YEAR		(393,828)	112,094

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000 (Restated)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		13,233	8,484
Reclassification adjustment for foreign operations disposed of during the year	35	51,743	(29)
Share of other comprehensive profit/(loss) of:			
Joint ventures		12,382	(3,090)
Associates		10,830	(5,060)
<hr/>			
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		88,188	305
<hr/>			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation		1,053,018	7,631
Income tax effect	31	(263,255)	(1,908)
<hr/>			
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		789,763	5,723
<hr/>			
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		877,951	6,028
<hr/>			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		484,123	118,122
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(Loss)/profit for the year attributable to:			
Owners of the Company		(393,986)	112,321
Non-controlling interests		158	(227)
<hr/>			
		(393,828)	112,094
<hr/>			
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		483,946	118,354
Non-controlling interests		177	(232)
<hr/>			
		484,123	118,122
<hr/>			
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
– For (loss)/profit for the year		(6.56)	2.22
<hr/>			
– For (loss)/profit from continuing operations		(5.75)	2.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	305,048	547,334
Investment properties	15	2,287,583	389,118
Right-of-use assets	16(a)	89,951	164,054
Intangible assets	17	6,867	3,644
Investments in joint ventures	18	188,321	180,083
Investments in associates	19	265,717	304,341
Financial assets at fair value through profit or loss	25	86,935	94,369
Loans receivable	23	–	1,098
Other non-current assets	24	2,804	35,791
Deferred tax assets	31	470	543
Total non-current assets		3,233,696	1,720,375
CURRENT ASSETS			
Inventories	20	181,568	254,255
Trade receivables	21	104,906	422,580
Bills receivable	22	3,373	–
Short-term loans receivable	23	–	2,272
Prepayments, deposits and other receivables	24	299,889	402,807
Amounts due from associates	40	3,170	7,080
An amount due from a joint venture	40	7,937	–
Pledged deposits	27	79,427	66,866
Cash and cash equivalents	27	208,773	297,420
		889,043	1,453,280
Assets classified as held for sale	26	198,777	186,323
Total current assets		1,087,820	1,639,603

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CURRENT LIABILITIES			
Trade payables	28	252,755	505,961
Other payables and accruals	29	1,500,899	1,402,490
Interest-bearing bank and other borrowings	30	534,670	240,439
Lease liabilities	16(b)	3,562	9,587
Amounts due to associates	40	43,578	52,811
An amount due to a joint venture	40	1,764	–
Amounts due to related parties	40	167,225	–
Tax payable		114,731	112,409
Total current liabilities		2,619,184	2,323,697
NET CURRENT LIABILITIES		(1,531,364)	(684,094)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,702,332	1,036,281
NON-CURRENT LIABILITIES			
Lease liabilities	16(b)	3,518	7,733
An amount due to a related party	40	–	269,432
Deferred tax liabilities	31	375,514	47,424
Other non-current liabilities		4,447	3,468
Total non-current liabilities		383,479	328,057
Net assets		1,318,853	708,224
EQUITY			
Equity attributable to owners of the Company			
Share capital	32	65,334	58,334
Reserves	32	1,253,120	649,668
Non-controlling interests		1,318,454	708,002
		399	222
Total equity		1,318,853	708,224

Chen Jiajun
Director

Ma Fei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Notes	Attributable to owners				
		Share capital	Share premium account	Contributed surplus	Asset revaluation reserve	Statutory reserve
		HK\$'000 (note 32(a))	HK\$'000 (note 32(b))	HK\$'000	HK\$'000	HK\$'000 (note 32(b))
At 1 January 2020		58,334	1,399,129	390	113,654	201,878
Loss for the year		-	-	-	-	-
Other comprehensive income for the year:						
Gain on property revaluation, net of tax		-	-	-	789,763	-
Exchange differences on translation of foreign operations		-	-	-	-	-
Reclassification adjustment for foreign operations disposed of during the year	35	-	-	-	-	-
Share of other comprehensive profits of:						
Joint ventures		-	-	-	-	-
Associates		-	-	-	-	-
Total comprehensive income for the year		-	-	-	789,763	-
Issue of shares	32	7,000	109,000	-	-	-
Share issue expenses	32	-	(283)	-	-	-
Equity-settled share option arrangements	33	-	-	-	-	-
At 31 December 2020		65,334	1,507,846*	390*	903,417*	201,878*

* These reserve accounts comprise the consolidated reserves of HK\$1,253,120,000 (2019: HK\$649,668,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

of the Company

Share option reserve HK\$'000	Share award reserve HK\$'000	Capital redemption reserve HK\$'000 <i>(note 32(b))</i>	Other reserve HK\$'000 <i>(note 32(b))</i>	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
67,018	43,564	1,870	1,570,874	(29,235)	(2,719,474)	708,002	222	708,224
-	-	-	-	-	(393,986)	(393,986)	158	(393,828)
-	-	-	-	-	-	789,763	-	789,763
-	-	-	-	13,214	-	13,214	19	13,233
-	-	-	-	51,743	-	51,743	-	51,743
-	-	-	-	12,382	-	12,382	-	12,382
-	-	-	-	10,830	-	10,830	-	10,830
-	-	-	-	88,169	(393,986)	483,946	177	484,123
-	-	-	-	-	-	116,000	-	116,000
-	-	-	-	-	-	(283)	-	(283)
10,789	-	-	-	-	-	10,789	-	10,789
77,807*	43,564*	1,870*	1,570,874*	58,934*	(3,113,460)*	1,318,454	399	1,318,853

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Notes	Attributable to owners				
		Share capital	Share premium account	Contributed surplus	Asset revaluation reserve	Statutory reserve
		HK\$'000 (note 32(a))	HK\$'000 (note 32(b))	HK\$'000	HK\$'000	HK\$'000 (note 32(b))
At 1 January 2019		50,334	1,235,632	390	107,931	201,560
Profit for the year		-	-	-	-	-
Other comprehensive income/(loss) for the year:						
Gain on property revaluation, net of tax		-	-	-	5,723	-
Exchange differences on translation of foreign operations		-	-	-	-	-
Reclassification adjustment for foreign operations disposed of during the year	35	-	-	-	-	-
Share of other comprehensive loss of:						
A joint venture		-	-	-	-	-
Associates		-	-	-	-	-
Total comprehensive income for the year		-	-	-	5,723	-
Issue of shares	32	8,000	163,964	-	-	-
Share issue expenses	32	-	(467)	-	-	-
Equity-settled share option arrangements	33	-	-	-	-	-
Appropriation to statutory reserve		-	-	-	-	318
At 31 December 2019		58,334	1,399,129*	390*	113,654*	201,878*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

of the Company

Share option reserve HK\$'000	Share award reserve HK\$'000	Capital redemption reserve HK\$'000 <i>(note 32(b))</i>	Other reserve HK\$'000 <i>(note 32(b))</i>	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
63,002	43,564	1,870	1,570,874	(29,545)	(2,831,477)	414,135	454	414,589
-	-	-	-	-	112,321	112,321	(227)	112,094
-	-	-	-	-	-	5,723	-	5,723
-	-	-	-	8,489	-	8,489	(5)	8,484
-	-	-	-	(29)	-	(29)	-	(29)
-	-	-	-	(3,090)	-	(3,090)	-	(3,090)
-	-	-	-	(5,060)	-	(5,060)	-	(5,060)
-	-	-	-	310	112,321	118,354	(232)	118,122
-	-	-	-	-	-	171,964	-	171,964
-	-	-	-	-	-	(467)	-	(467)
4,016	-	-	-	-	-	4,016	-	4,016
-	-	-	-	-	(318)	-	-	-
67,018*	43,564*	1,870*	1,570,874*	(29,235)*	(2,719,474)*	708,002	222	708,224

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax			
From continuing operations		(299,063)	118,111
From a discontinued operation	11	(46,754)	(1,493)
Adjustments for:			
Bank interest income		(2,879)	(2,031)
Finance costs	7	37,000	44,197
Share of losses/(profits) of joint ventures		5,774	(129,049)
Share of losses of associates		47,532	19,238
Depreciation	6	25,722	28,845
Changes in fair value of investment properties	5	(175,662)	(4,554)
Amortisation of patents, licences and computer software	6	1,642	1,441
Depreciation of right-of-use assets	6	10,394	14,960
Gain on disposal of right-of-use assets	5	(873)	–
Loss on disposal of items of property, plant and equipment	6	6,066	8,674
Gain on disposal of investments in associates	5	(623)	(2,625)
Loss on disposal of a subsidiary	11, 35	55,723	–
Fair value loss on financial assets at fair value through profit or loss	6	8,754	36,657
Impairment/(reversal) of impairment of financial assets, net	6	4,227	(16,112)
Impairment of investments in associates	6	–	3,196
Impairment of right-of-use assets	6	–	3,210
Impairment of other non-current assets	6	31,403	–
Impairment of property, plant and equipment and intangible assets	6	22,611	–
Write-down of inventories at net realisable value	6	26,016	49,594
Loss on transfer from construction in progress to an investment property	6	–	6,091
Recognition of equity-settled share option expense	6	10,789	4,016
Unrealised exchange difference		(53,016)	15,635
		(285,217)	198,001
Decrease in other non-current assets		3,036	3,298
Decrease/(increase) in inventories		56,535	(114,866)
Decrease/(increase) in trade receivables		321,325	(251,862)
(Increase)/decrease in bills receivable		(3,373)	8,967
(Increase)/decrease in loans receivable		(187,803)	3,989
Decrease in prepayments, deposits and other receivables		122,847	132,586
Increase in amounts due from joint ventures		(1,378)	–
Decrease/(increase) in amounts due from associates		978	(4,572)
(Decrease)/increase in trade payables		(281,577)	260,690
Decrease in other payables and accruals		(21,228)	(231,967)
Increase in an amount due to a related party		9,793	–
Decrease in amounts due to associates		–	(130,887)
Increase/(decrease) in other non-current liabilities		837	(1,232)
Cash used in operations		(265,225)	(127,855)
Income tax paid		(1,602)	(77)
Net cash flows used in operating activities		(266,827)	(127,932)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Net cash flows used in operating activities		(266,827)	(127,932)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,879	2,031
Purchases of items of property, plant and equipment		(169,804)	(171,662)
Additions to right-of-use assets		(24,470)	–
Prepayment for the purchase of an intangible asset		–	(27,210)
Additions to other intangible assets		(4,474)	–
Proceeds from disposal of items of property, plant and equipment		1,776	11,324
Proceeds from disposal of a financial asset at fair value through profit or loss		33,939	8,458
Net inflow of cash in respect of the disposal of subsidiaries	35	180,240	9,827
Acquisition of a subsidiary	34	16,980	–
Additional contribution to an associate		–	(13,842)
Purchase of financial assets at fair value through profit or loss		(34,880)	–
Withdrawal of a financial asset at fair value through profit or loss		878	–
Advances to related parties		(14,496)	–
Advance received for the disposal of a parcel of land and construction in progress		–	230,294
Cash transferred to restricted bank deposits		(18,960)	(67,633)
Cash transferred from restricted bank deposits		11,137	114,072
Net cash flows (used in)/from investing activities		(19,255)	95,659
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	116,000	171,964
Share issue expenses	32	(283)	(467)
Acquisition of non-controlling interests	36	–	(2,351)
New bank and other borrowings	36	647,218	109,785
Repayment of bank and other borrowings	36	(383,056)	(92,615)
Interest paid	36	(40,037)	(11,601)
Repayment of lease liabilities (including principal portion)	16, 36	(8,689)	(11,183)
(Decrease)/increase in an amount due to a related party	36	(138,587)	58,471
Repayment of the advance received in respect of a proposed issue of convertible bonds	36	–	(58,195)
Net cash flows from financing activities		192,566	163,808
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		297,420	168,554
Effect of foreign exchange rate changes, net		4,869	(2,669)
CASH AND CASH EQUIVALENTS AT END OF YEAR		208,773	297,420
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	208,773	297,420

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. Corporate and Group Information

Coolpad Group Limited is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries are wireless solution and equipment providers. During the Year, the Group continued to focus on the production and sale of mobile phones and accessories, and the provision of wireless application services.

Information about subsidiaries

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

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yulong Infotech Inc.	The British Virgin Islands ("BVI")/ Mainland China	US\$50,000	100	–	Investment holding
Digital Tech Inc.	BVI/ Mainland China	US\$10	100	–	Investment holding
Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen")**	The People's Republic of China ("PRC")/ Mainland China	RMB503,000,000	–	100	Sale of mobile phones
Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad")*	PRC/ Mainland China	HK\$10,000,000	–	100	Provision of product design and software development for mobile handsets
Dongguan Yulong Telecommunication Tech Co., Ltd. ("Dongguan Yulong")***	PRC/ Mainland China	RMB120,000,000	–	100	Manufacture of mobile phones
Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad")*	PRC/ Mainland China	RMB8,000,000	–	100	Provision of product design and software development for mobile handsets
Coolpad Overseas Limited	Hong Kong	US\$1,550,000	–	100	Sale of mobile phones
Coolpad Technologies Inc.	United States	US\$2,300,000	–	100	Sale of mobile phones
Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies")***	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. Corporate and Group Information (Continued) Information about subsidiaries (Continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yulong Technologies (Hong Kong) Co., Ltd.	Hong Kong	US\$1,000,000	–	100	Sale of mobile phones
China Wireless Technologies Limited	Cayman Islands	US\$1	–	100	Investment holding
China Wireless Technologies Limited	Hong Kong	HK\$1,000	–	100	Investment holding
Xi'an Coolpad Telecommunications Equipment Co., Ltd. ("Xi'an Coolpad Equipment")*	PRC/ Mainland China	RMB300,000,000	–	100	Production of mobile phones
Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad")***	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets
Shenzhen Helong Technology Co., Ltd. ("Helong Technology")^	PRC/ Mainland China	RMB11,000,000	–	100	Provision of wireless application services
Dongguan Kule Property Management Co., Ltd.*	PRC/ Mainland China	RMB1,000,000	–	100	Property management
Coolpad Global Inc.	Cayman Islands	US\$1	100	–	Investment holding
Coolpad Global Limited	Hong Kong	US\$100	–	100	Investment holding
Xcentz Limited	Hong Kong	US\$100,000	–	100	Sale of mobile phones
Xcentz Inc	United States	US\$1	–	100	Sale of mobile phones and accessories
Coolpad Technologies CA, Inc	Canada	US\$10	–	100	Sale of mobile phones
Jiangxi Yulong Communication Technology Co., Ltd.***	PRC/ Mainland China	RMB1,000,000	–	100	Sale of mobile phones
Dongguan Coolpad Software Tech Co., Ltd. ("Dongguan Coolpad Software")***	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. Corporate and Group Information (Continued) Information about subsidiaries (Continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Huihengying Investment Management Co., Ltd.**	PRC/ Mainland China	RMB500,000	–	100	Investment holding
Shenzhen Juhechengzhang Investment Partnership Co., Ltd. (“Shenzhen Juhechengzhang”)**	PRC/ Mainland China	RMB10,000,000	–	100	Investment holding
Hunan Helongsheng Trading Co., Ltd. (“Hunan Helongsheng”)**	PRC/ Mainland China	RMB10,000,000	–	60	Dormant
Dongguan Yikuaixiu Technology Co., Ltd.*	PRC/ Mainland China	RMB10,000,000	–	100	Mobile phone maintenance service
Coolpad Information Technologies Research Institute (Shenzhen) Co., Ltd.**	PRC/ Mainland China	RMB30,000,000	–	100	Product design and software development
Coolpad International Holding (Shenzhen) Co., Ltd.*	PRC/ Mainland China	RMB600,000,000	–	100	Investment holding
Nanchang Coolpad Intelligent Technology Co., Ltd. (“Nanchang Coolpad”)**	PRC/ Mainland China	RMB800,000,000	–	100	Sale of mobile phones

* The subsidiaries were registered as wholly-owned foreign enterprises under PRC law.

** The subsidiary was registered as a co-operative joint venture under PRC law.

*** The subsidiaries were registered as limited liability companies under PRC law.

**** The equity interest in this entity legally held by the Group is less than its beneficiary interest therein which is attributable to the financing arrangement pursuant to which the Group is obligated to repurchase the equity interest legally held by the counterparties at a pre-determined amount and the counterparties are not entitled to any voting right and earnings appropriation. In the opinion of the Company’s directors, the Group is in substance entitled to the entire equity interest of this entity and governs its financial and operating policies so as to obtain benefits from the operating activities of this entity, and therefore, the Group has consolidated its equity interest in full in the financial statements.

^ The entity is consolidated through certain contractual arrangements.

As disclosed in note 35 to the financial statements, Shenzhen Huiying Finance Co., Ltd. (“Huiying”) was a subsidiary of the Group as at 31 December 2019 and was disposed of in 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

During the Year, the Group consolidated Helong Technology through certain contractual arrangements. Further details of this acquisition are included in note 34 to the financial statements.

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.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings included as property, plant and equipment and equity investments at fair value through profit or loss which have been measured at fair value. Assets classified as held for sale are stated at the lower of their carrying amounts and fair value less costs to sell. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

On 17 April 2020, the Company announced the decision of its board of directors to dispose of Huiying, which engages in the provision of financing services. The disposal of Huiying was completed on 2 July 2020. The disposal of Huiying was reported as a discontinued operation in the accompanying consolidated statement of profit or loss and other comprehensive income and the comparative figures for the year ended 31 December 2019 have been restated accordingly.

Going concern basis

The Group reported net current liabilities of HK\$1,531 million as at 31 December 2020. The unrestricted cash and cash equivalent balance amounted to HK\$209 million as at 31 December 2020. As at 31 December 2020, the Group’s capital commitment in respect of the capital expenditure for its construction in progress to be incurred in the coming twelve months was HK\$93 million. These circumstances may cast significant doubt on the Group’s ability to continue as a going concern.

During the Year, the Directors have taken various measures with the aim of improving the Group’s liquidity position, including but not limited to, i) the implementation of cost saving measures to control the daily operation costs; ii) the consent from Kingkey Group Company Limited (京基集團有限公司) (“Kingkey Group”) not to demand the repayment of the loans drawn down under the loan agreement with Kingkey Group with the original due date at 21 May 2021. Up to the date of this report, the cumulative loan amounts drawn down by the Group were approximately HK\$232 million. The remaining undrawn loan balance was approximately HK\$362 million; iii) completion of a placing of 700,000,000 shares with net proceeds of approximately HK\$116 million; and iv) a conditional bank facility of RMB1,350 million (equivalent to HK\$1,604 million) was successfully obtained by the Company. Up to the date of this report, the cumulative loan amounts drawn down by the Group was approximately HK\$297 million. The remaining undrawn loan balance was approximately HK\$1,307 million. Further details are set out in note 30 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 Basis of Preparation (Continued)

Going concern basis (Continued)

Further measures have been taken by or in the deliberation of the Directors to improve the liquidity position of the Group, including but not limited to, i) On 5 February 2021, the Group entered into an agreement with an independent third party, pursuant to which, the Group successfully extended the due date of a loan included in other borrowings amounting to RMB100 million (equivalent to HK\$119 million) to 27 September 2022; and ii) On 8 March 2021, the Group successfully completed a placing of 666,000,000 shares with net proceeds of approximately HK\$186 million.

The Directors have prepared a cash flow forecast of the Group for the next twelve months based on the existing situation, future events and commitments of the Group. The Directors considered that the Group will have adequate working capital to meet its obligations, and therefore the financial statements of the Group have been prepared under a going concern basis.

Measures and estimations have been taken into consideration by the Directors, including but not limited to:

- (i) The Group has revisited its capital expenditure plan in the coming twelve months and has considered to postpone the current construction in progress depending on the sufficiency of the working capital and the Group's capability in obtaining the finance resources. In the opinion of the Directors, the deferral of the capital expenditure would mitigate the pressure on the demand of operating fund in the coming twelve months.
- (ii) On 12 January 2021, Yulong Shenzhen, a wholly-owned subsidiary of the Company, entered into a cooperation agreement with an independent property developer, namely Shenzhen Xinghuan Real Estate Development Co., Ltd. ("Xinghuan"), pursuant to which, Yulong Shenzhen and Xinghuan have conditionally agreed to jointly cooperate and develop the second and third phases of the urban renovation project of the Coolpad Information Harbor, whereby Yulong Shenzhen shall provide the lands owned by it and Xinghuan shall provide funds and expertise in relation to the construction, operation and sales (where appropriate). The Group believes the cooperation can serve to facilitate the construction works of the urban renovation project without exhausting the financial resources of the Group and will contribute positively to the financial performance of the Group in the future. More details are set out in the announcement of the Company dated 12 January 2021.
- (iii) The Group has revisited its operating strategies in Mainland China taking into account the potential business opportunities arising from the 5th generation wireless system market and aimed to expand the cooperation with its business partners from various channels. The Group has continued to take measures to tighten cost controls over various production costs and expenses with the aim of attaining profitable and positive cash flow operations, including scaling down the operation, human resources optimisation and containment of capital expenditures.

Notwithstanding the above, in consideration of uncertainty and vulnerability of the new 5th generation mobile phone business in the Group's main operating markets including Mainland China and the United States, and the continuing spread of COVID-19 giving rise to increasing uncertainties and disruptions to the economy, material uncertainties exist as to whether the Group will be able to achieve its plans and measures as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 Basis of Preparation (Continued)

Going concern basis (Continued)

Should the Group fail to realise its plans to improve its financial position, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position as at 31 December 2020. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 Changes in Accounting Policies and Disclosures (Continued)

- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any significant impact on the financial position and performance of the Group.
- (e) Amendments to HKAS 1 and HKAS 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{3,5}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ²
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had an interest-bearing bank borrowing denominated in RMB based on the Loan Prime Rate ("LPR") as at 31 December 2020. If the interest rate of this borrowings is replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of this borrowing when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to this change.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 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 HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 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.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 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 have 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 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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate 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 assets 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Investments in associates and joint ventures (Continued)

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 HKFRS 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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

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.

Fair value measurement

The Group measures its investment properties, certain buildings included in property, plant and equipment 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties, certain buildings included in property, plant and equipment and assets classified as held for sale), 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 in those expense categories consistent with the function of the impaired asset, 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 an 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 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 any depreciation/amortisation) had no impairment loss been recognised for the asset and other comprehensive income 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

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 principal annual rates used for this purpose are as follows:

Buildings		4.5%
Leasehold improvements	Over the shorter of the lease terms and	20%
Furniture, fixtures and equipment		18% to 30%
Motor vehicles		18%

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.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Investment properties

Investment properties are interests in buildings, held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Patents and licences

Purchased patents and licences are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 15 years.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	30 to 50 years
Properties	1 to 4 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and computers that are considered to be of low value.

When the Group enters into a lease in respect of a low-value asset, the Group decides not to capitalise the lease on a lease-by-lease basis.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income of such leases is recognised in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost 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 HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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:

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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 profit or loss.

This category includes 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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

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.

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

The Group recognises an allowance for expected credit losses ("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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

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.

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 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 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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, 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, amounts due to associates, an amount due to a joint venture, lease liabilities, amounts due to related parties and interest-bearing bank and other borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate 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 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

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.

Offsetting of financial instruments

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.

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 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.

The Group provides for warranties in relation to the sale of mobile phones and related accessories for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and 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, and 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.

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 grants or subsidies will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for 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 profit or loss over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

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.

(a) Sale of mobile phone products

Revenue from the sale of industrial products including mobile phones and related accessories is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Some contracts for the sale of industrial products provide customers with volume rebates. The volume rebates give rise to variable consideration.

(i) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Wireless application service income

Wireless application service income is recognised at the point in time when the specific installation and activation requirement has been met.

(c) Financing service 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Other income

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

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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract. (i.e., transfers control of the related goods or services to the customer).

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. For grant of share options, the fair value is determined by an external valuer using a binomial model. For grant of award shares, the fair value is determined by the market price of the Company's shares at the grant date.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

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.

Termination benefits

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

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency 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 currency 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currency of the subsidiaries in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate prevailing at the end of the reporting period and profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rate 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 profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. 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 a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual arrangements

The Group exercises control over Helong Technology and enjoys the economic benefits from its operation through a series of contractual arrangements.

The Group considers that it controls Helong Technology notwithstanding the fact that it does not hold direct equity interests in Helong Technology, as it has power over the financial and operating policies of Helong Technology and receives substantially all of the economic benefits from the business activities of Helong Technology through the contractual arrangements. Accordingly, Helong Technology has been accounted for as a subsidiary during the Year.

Going concern consideration

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that may individually or collectively cast a significant doubt upon the going concern assumption are set out in note 2.1 to the financial statements.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. Significant Accounting Judgements and Estimates (Continued) Judgements (Continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Income tax

Deferred tax is provided using the liability method, on all temporary differences as 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 have been established for withholding taxes that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. If these undistributed earnings of subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred tax charge and deferred tax liabilities would have been increased by the same amount of approximately HK\$281,088,000 (2019: HK\$284,478,000) (note 31).

Determination of cash-generating units

In the process of impairment assessment of the Group's non-financial assets, management is required to identify cash-generating units. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of a cash-generating unit involves Judgement.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. Significant Accounting Judgements and Estimates (Continued)

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:

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. 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 of a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less cost of disposal and its value in use. The calculation of the fair value less cost of disposal 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 disposing of the asset. If there is no binding sale agreement or active market for that asset (or asset group), management will make reference to the best information available to reflect the amount that an entity could obtain at the end of the reporting period. 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.

During the year ended 31 December 2020, impairment losses for property, plant and equipment of certain assets in the mobile phone segment amounting to approximately HK\$22,611,000 have been recognised. Further details are set out in note 14 to the financial statements (2019: Nil).

Provision for product warranties

The Group provides one-year warranties on its products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. At 31 December 2020, the best estimate of the carrying amount of provision for product warranties was HK\$18,942,000 (2019: HK\$22,844,000) (note 29).

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing from the date of issuing invoices for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and, customer type and rating).

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 product) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The determination of the written-down amount involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimates, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back in the period in which such estimate has been changed. At 31 December 2020, the carrying amount of inventories was approximately HK\$181,568,000 (2019: HK\$254,255,000) after netting off the allowance for inventories of approximately HK\$51,310,000 (2019: HK\$99,332,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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. The amount of accumulated unrecognised tax losses at 31 December 2020 was HK\$2,048,856,000 (2019: HK\$1,132,463,000). Further details are set out in note 31 to the financial statements.

Provision for compensation to suppliers

The Group made provision for the compensation to suppliers regarding the cancellation of orders placed for procurement of raw materials yet to be received. Management estimated the provision at their best efforts for the possible amounts to be claimed by the suppliers based on historical settlement patterns and their negotiation status of each vendor affected. At 31 December 2020, the amount of the provision for compensation to suppliers included in other payables and accruals was approximately HK\$70,277,000 (2019: HK\$64,197,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2020 was HK\$2,287,583,000 (2019: HK\$389,118,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on its products and services and has two reportable operating segments as follows:

- (a) the mobile phone segment engages in the research, development, production and sale of mobile phones and related accessories and the provision of wireless application service;
- (b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation.

During the year ended 31 December 2020, the Group completed the disposal of its business in financing services. Accordingly, certain comparative segment information related to the financing service segment is classified as "loss for the Year from a discontinued operation" in the consolidated statement of profit or loss and other comprehensive income. The impact of the abovementioned changes in the Group's reportable operating segment for the year ended 31 December 2019 is considered retrospectively and the Group's operating segment information is restated as if the Group had reallocated the resources in that year.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. Operating Segment Information (Continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax from continuing operations. The adjusted (loss)/profit before tax from continuing operations is measured consistently with the Group's (loss)/profit before tax from continuing operations except that interest income, impairment of investments in associates, non-lease-related finance costs, gain on disposal of investments in associates and share of losses of joint ventures and associates as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude investments in joint ventures, investments in associates, financial assets at fair value through profit or loss, deferred tax assets, amounts due from associates, an amount due from a joint venture, assets classified as held for sale, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, amounts due to associates, an amount due to a joint venture, amounts due to related parties, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. Operating Segment Information (Continued)

Year ended 31 December 2020	Mobile phone HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment revenue (note 5)			
Sales to external customers	811,757	–	811,757
Other revenue and gains	89,706	194,123	283,829
Revenue from continuing operations	901,463	194,123	1,095,586
Segment results	(393,958)	180,759	(213,199)
Reconciliation:			
Interest income			2,807
Finance costs (other than interest on lease liabilities)			(35,988)
Gain on disposal of investments in associates			623
Share of losses of joint ventures			(5,774)
Share of losses of associates			(47,532)
Loss before tax from continuing operations			(299,063)
Segment assets	868,027	2,288,271	3,156,298
Reconciliation:			
Investments in joint ventures			188,321
Investments in associates			265,717
Corporate and other unallocated assets			711,180
Total assets			4,321,516
Segment liabilities	1,743,717	7,162	1,750,879
Reconciliation:			
Corporate and other unallocated liabilities			1,251,784
Total liabilities			3,002,663
Other segment information			
From continuing operations:			
Impairment of financial assets, net	4,227	–	4,227
Impairment of property, plant and equipment	22,611	–	22,611
Write-down of inventories to net realisable value	26,016	–	26,016
Fair value gain on investment properties	–	175,662	175,662
Reversal of product warranty	(2,493)	–	(2,493)
Depreciation and amortisation	37,758	–	37,758
Capital expenditure*	33,274	216,554	249,828

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. Operating Segment Information (Continued)

Year ended 31 December 2019 (Restated)	Mobile phone HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment revenue (note 5)			
Sales to external customers	1,858,090	–	1,858,090
Other revenue and gains	170,890	23,167	194,057
Revenue from continuing operations	2,028,980	23,167	2,052,147
Segment results	34,750	14,842	49,592
Reconciliation:			
Interest income			1,949
Impairment of investments in associates			(3,196)
Finance costs (other than interest on lease liabilities)			(42,670)
Gain on disposal of investments in associates			2,625
Share of profit of a joint venture			129,049
Share of losses of associates			(19,238)
Profit before tax from continuing operations			118,111
Segment assets	1,827,483	391,504	2,218,987
Reconciliation:			
Investment in a joint venture			180,083
Investments in associates			304,341
Corporate and other unallocated assets			652,601
Assets related to a discontinued operation			3,966
Total assets			3,359,978
Segment liabilities	1,913,452	3,597	1,917,049
Reconciliation:			
Corporate and other unallocated liabilities			732,370
Liabilities related to a discontinued operation			2,335
Total liabilities			2,651,754
Other segment information			
From continuing operations:			
Reversal of impairment of financial assets, net	(16,112)	–	(16,112)
Write-down of inventories to net realisable value	49,594	–	49,594
Fair value gain on investment properties	–	4,554	4,554
Product warranty provision	10,373	–	10,373
Depreciation and amortisation	45,231	–	45,231
Capital expenditure*	126,327	–	126,327

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. Operating Segment Information (Continued)

Geographical information

(a) Revenue from external customers

	2020 HK\$'000	2019 HK\$'000 (Restated)
Mainland China	109,490	128,372
Overseas	702,267	1,729,718
	811,757	1,858,090

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

	2020 HK\$'000	2019 HK\$'000
Mainland China	3,133,731	1,607,010
Overseas	10,113	9,146
	3,143,844	1,616,156

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

Information about major customers

Revenue from major customers each individually amounting to 10% or more of the Group's revenue is as follows:

Operating segment		2020 HK\$'000	2019 HK\$'000
Customer B	Mobile phone	325,882	693,836
Customer C	Mobile phone	158,969	N/A
Customer A	Mobile phone	N/A	772,333

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	2020 HK\$'000	2019 HK\$'000 (Restated)
Revenue from contracts with customers:		
Sale of mobile phones and related accessories	795,147	1,854,148
Wireless application service income	16,610	3,942
	811,757	1,858,090

Revenue from contracts with customers

(i) Disaggregated revenue information

Segment	2020 HK\$'000	2019 HK\$'000 (Restated)
Timing of revenue recognition:		
Goods and services transferred at a point of time	811,757	1,858,090

The following table shows the amount of revenue recognised in the current year that was included in the contract liabilities at the beginning of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Sale of mobile phones and related accessories	11,041	23,958

No revenue recognised during the Year related to performance obligations that were satisfied in prior years (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. Revenue, Other Income and Gains (Continued)

Other income and gains

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000 (Restated)
Bank interest income		2,807	1,949
Government grants and subsidies*		24,184	114,368
Gross rental income from investment property operating leases:			
Fixed lease payments		18,461	18,613
Fair value gain on investment properties	15	175,662	4,554
Foreign exchange gains, net		47,020	9,649
Various services income		4,552	16,027
After-sales repair service		5,562	17,509
Gain on disposal of right-of-use assets		873	–
Gain on disposal of investments in associates		623	2,625
Others		7,515	13,337
		287,259	198,631

* Government grants and subsidies represented refunds of VAT received from a tax bureau and grants received from certain finance bureaus to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies relating to these grants and subsidies.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. (Loss)/Profit before Tax from Continuing Operations

The Group's (loss)/profit before tax from continuing operations is arrived at after charging/(crediting):

	Notes	2020 HK\$'000	2019 HK\$'000 (Restated)
Cost of inventories sold		663,687	1,376,611
Depreciation of property, plant and equipment	14	25,722	28,830
Depreciation of right-of-use assets	16	10,394	14,960
Amortisation of intangible assets	17	1,642	1,441
Research and development costs*:			
Current year expenditure		210,033	114,396
Lease payments not included in the measurement of lease liabilities	16	2,558	739
Auditor's remuneration:			
Annual audit		3,286	3,366
Agreed-upon procedures		760	455
		4,046	3,821
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		183,342	158,954
Staff welfare expenses		7,428	2,543
Pension scheme contributions (defined contribution scheme)		6,020	13,261
Equity-settled share option expense	33	10,789	4,016
		207,579	178,774
(Reversal of impairment)/impairment of trade receivables [#]		(2,423)	6,530
Impairment/(reversal) of impairment of other financial assets, net [#]		6,650	(22,642)
Impairment of right-of-use assets [#]		–	3,210
Impairment of property, plant and equipment [#]		22,611	–
Impairment of other non-current assets [#]		31,403	–
Impairment of investments in associates	19	–	3,196
Loss on disposal of items of property, plant and equipment [#]		6,066	8,674
Write-down of inventories to net realisable value ^{&}		26,016	49,594
Direct operating expenses arising on rental-earning investment properties*		12,009	2,234
(Reversal)/provision of product warranty	29	(2,493)	10,373
Fair value losses on financial assets at fair value through profit or loss, net [#]		8,754	36,657
Penalties [#]		8,425	2,952
Litigation claims [#]		17,970	–
Loss on transfer from construction in progress to an investment property	15	–	6,091

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. (Loss)/Profit before Tax from Continuing Operations (Continued)

- * Included in "Administrative expenses" in profit or loss
- & Included in "Cost of sales" in profit or loss
- # Included in "Other expenses" in profit or loss

7. Finance Costs

An analysis of finance costs from continuing operations is as follows:

	2020 HK\$'000	2019 HK\$'000
Interest on:		
Bank and other borrowings	19,882	23,349
An amount due to a related party	16,094	16,202
Interest on factoring of trade receivables	12	3,119
Interest on lease liabilities	1,012	1,527
	37,000	44,197

8. Directors' Remuneration

Directors' 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:

	2020 HK\$'000	2019 HK\$'000
Fees	1,440	1,155
Other emoluments:		
Salaries, allowances and benefits in kind	10,357	9,056
Performance related bonuses*	211	–
Equity-settled share option expense	2,735	1,598
Pension scheme contributions	38	76
	13,341	10,730
	14,781	11,885

- * Certain executive directors of the Company are entitled to bonus payments which are determined by the performance of the Group and their departments.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. Directors' Remuneration (Continued)

In 2019, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to the Group's independent non-executive directors during the year were as follows:

	Equity-settled share option		Total
	Fees HK\$'000	expense HK\$'000	remuneration HK\$'000
2020			
Dr. HUANG Dazhan	360	78	438
Mr. XIE Weixin	360	78	438
Mr. CHAN King Chung	360	78	438
Mr. GUO Jinghui	360	78	438
	1,440	312	1,752
2019			
Dr. HUANG Dazhan	360	16	376
Mr. XIE Weixin	360	16	376
Mr. CHAN King Chung	360	16	376
Mr. GUO Jinghui	75	16	91
	1,155	64	1,219

There were no other emoluments payable to the independent non-executive directors during the Year (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

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8. Directors' Remuneration (Continued)

(b) Executive directors and non-executive directors

	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2020					
Chief executive:					
Mr. CHEN Jiajun**	3,389	–	–	–	3,389
Executive directors:					
Mr. XU Yibo	1,837	173	523	19	2,552
Mr. MA Fei	874	38	349	19	1,280
Mr. LAM Ting Fung Freeman	600	–	122	–	722
	3,311	211	994	38	4,554
Non-executive directors:					
Mr. NG Wai Hung	360	–	122	–	482
Mr. LIANG Rui*	3,297	–	1,307	–	4,604
	3,657	–	1,429	–	5,086
	10,357	211	2,423	38	13,029

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. Directors' Remuneration (Continued)

(b) Executive directors and non-executive directors (Continued)

	Salaries, allowances and benefits in kind HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2019				
Chief executive:				
Mr. LIANG Rui*	1,513	269	–	1,782
Executive directors:				
Mr. XU Yibo	1,842	1,116	38	2,996
Mr. CHEN Jiajun	3,249	–	–	3,249
Mr. MA Fei	813	99	38	950
Mr. LAM Ting Fung Freeman	600	25	–	625
Mr. LEUNG Siu Kee	500	–	–	500
Mr. JIANG Chao	179	–	–	179
	7,183	1,240	76	8,499
Non-executive director:				
Mr. NG Wai Hung	360	25	–	385
	9,056	1,534	76	10,666

* Appointed as the chief executive officer on 30 August 2019. Re-designated from an executive Director to a non-executive Director with immediate effect from 20 December 2020.

** Appointed as the chief executive officer on 20 December 2020.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Year (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

9. Five Highest Paid Employees

The five highest paid employees during the Year included four directors (2019: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the Year of the remaining one (2019: two) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	Group	
	2020	2019
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,543	3,941
Equity-settled share option expense	213	21
Pension scheme contributions	49	–
	1,805	3,962

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2020	2019
HK\$1,000,000 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	–	1
	1	2

NOTES TO FINANCIAL STATEMENTS

31 December 2020

10. Income Tax Expense

The Company is a tax exempted company registered in the Cayman Islands and conducts substantially all of its businesses through its subsidiaries established in Mainland China (the “PRC Subsidiaries”).

No provision for Hong Kong profits tax has been made (2019: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the Year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group’s subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

	2020 HK\$'000	2019 HK\$'000 (Restated)
Current – charge for the year	2,697	3,414
Deferred (<i>note 31</i>)	45,314	1,110
Total tax charge for the year from continuing operations	45,965	3,299
Total tax charge for the year from a discontinued operation	2,046	1,225
	48,011	4,524

NOTES TO FINANCIAL STATEMENTS

31 December 2020

10. Income Tax Expense (Continued)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory tax rate for the country in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2020 HK\$'000	2019 HK\$'000 (Restated)
(Loss)/profit before tax from continuing operations	(299,063)	118,111
Loss before tax from a discontinued operation	(46,754)	(1,493)
	(345,817)	116,618
Tax at the statutory tax rate	(86,454)	29,155
Effect of different tax rates for certain group entities	13,967	11,804
Losses/(profits) attributable to joint ventures	1,444	(32,262)
Losses attributable to associates	8,005	3,132
Tax losses utilized from prior periods	(433)	–
Expenses not deductible for tax	2,608	3,172
Additional deduction of research and development expenses	(42,699)	(15,754)
Effects of temporary differences	(61,750)	(56,384)
Tax losses not recognised	213,323	61,661
Tax charge at the Group's effective rate	48,011	4,524
Tax charge from continuing operations at the effective rate	45,965	3,299
Tax charge from a discontinued operation at the effective rate	2,046	1,225

The Group's PRC Subsidiaries are subject to corporate income tax ("CIT") at a rate of 25%. Certain subsidiaries of the Group operating in Mainland China are eligible for certain tax concessions. Major tax concessions applicable to those entities are detailed as follows:

- (a) SZ Coolpad Technologies, the Company's wholly-owned subsidiary, was assessed and recognised as a high-technology enterprise in December 2019, and is subject to CIT at a rate of 15% for three years from 2019 to 2021. In this regard, SZ Coolpad Technologies was subject to CIT at a rate of 15% (2019: 15%) for the year ended 31 December 2020.
- (b) Nanjing Coolpad, the Company's wholly-owned subsidiary, was assessed and recognised as a high-technology enterprise in December 2018, and was subject to CIT at a rate of 15% for three years from 2018 to 2020. Therefore, Nanjing Coolpad was subject to CIT at a rate of 15% (2019: 15%) for the year ended 31 December 2020.
- (c) Dongguan Coolpad software, the Company's wholly-owned subsidiary, was established in 2014 and assessed as a software enterprise in 2017 and therefore is exempted from CIT for the first two years starting from the year when it begins to make profit and will be entitled to a 50% reduction in the applicable tax rate for CIT in the three years that follow. Dongguan Coolpad software started its tax concession period from year 2017 as it made profit in that year. In this regard, Dongguan Coolpad software was subject to CIT at a rate of 12.5% (2019: 12.5%) for the year ended 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

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11. Discontinued Operation

On 17 April 2020, the Company announced the decision of its board of directors to dispose of Huiying. The Group decided to cease its financing service business to focus its resources on its mobile phone business. The disposal of Huiying was completed on 2 July 2020. With Huiying being classified as a discontinued operation, the financing services business was no longer included in the note for operating segment information. Further details of the above were set out in the Company's announcement dated 4 June 2020.

The results of the discontinued operation for the period from 1 January 2020 to 2 July 2020 and the year ended 31 December 2019 are presented below:

	<i>Note</i>	Period from 1 January 2020 to 2 July 2020 HK\$'000	2019 HK\$'000
Revenue		13,161	159
Expenses		(6,499)	(507)
Other income/(expense)		2,307	(1,145)
Profit/(loss) before tax		8,969	(1,493)
Income tax expense		(2,046)	(1,225)
Profit/(loss) for the period/year		6,923	(2,718)
Loss on disposal of a subsidiary	35(A)	(55,723)	–
Loss for the year from the discontinued operation		(48,800)	(2,718)

The net cash flows incurred by the discontinued operation are as follows:

	2020 HK\$'000	2019 HK\$'000 (Restated)
Operating activities	174,188	(5,061)
Net cash inflow/(outflow)	174,188	(5,061)
Loss per share:	HK cents	HK cents
Basic and diluted from a discontinued operation	(0.81)	(0.05)

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31 December 2020

11. Discontinued Operation (Continued)

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

	2020	2019
Loss attributable to ordinary equity holders of the Company from the discontinued operation (HK\$)	(48,800,000)	(2,718,000)
Weighted average number of ordinary shares used in the basic and diluted loss per share calculation (<i>note 13</i>)	6,001,440,267	5,061,900,631

12. Dividend

The Directors did not recommend payment of any final dividend for the Year (2019: Nil).

13. (Loss)/Earnings per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic (loss)/earnings per share amounts is based on the (loss)/earnings for the Year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 6,001,440,267 (2019: 5,061,900,631) in issue during the Year.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the share options outstanding had no dilution effect on the basic (loss)/earnings per share amount presented.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2020 HK\$'000	2019 HK\$'000 (Restated)
(Loss)/earnings attributable to owners of the Company, used in the basic and diluted (loss)/earnings per share calculation:		
From continuing operations	(345,186)	115,039
From a discontinued operation	(48,800)	(2,718)
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share	(393,986)	112,321

NOTES TO FINANCIAL STATEMENTS

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14. Property, Plant and Equipment

	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2020						
Cost or valuation:						
At 1 January 2020	285,677	16,384	221,799	6,442	376,344	906,646
Additions	-	-	6,602	-	238,235	244,837
Surplus on revaluation	59,648	-	-	-	-	59,648
Transfer to investment properties	-	-	-	-	(512,272)	(512,272)
Disposals	(607)	-	(47,946)	(823)	-	(49,376)
Transfers	58,941	-	-	-	(58,941)	-
Exchange realignment	24,964	1,054	11,898	316	5,618	43,850
At 31 December 2020	428,623	17,438	192,353	5,935	48,984	693,333
Accumulated depreciation and impairment:						
At 1 January 2020	163,447	15,364	176,873	3,628	-	359,312
Depreciation provided during the year	10,896	421	13,684	721	-	25,722
Impairment:	-	414	20,825	1,372	-	22,611
Disposals	(534)	-	(40,260)	(741)	-	(41,535)
Exchange realignment	11,092	1,012	9,866	205	-	22,175
At 31 December 2020	184,901	17,211	180,988	5,185	-	388,285
Net book value:						
At 31 December 2020	243,722	227	11,365	750	48,984	305,048

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. Property, Plant and Equipment (Continued)

	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2019						
Cost or valuation:						
At 1 January 2019	297,424	16,281	236,106	8,747	639,692	1,198,250
Additions	–	–	4,787	1,383	92,947	99,117
Surplus on revaluation	7,631	–	–	–	–	7,631
Transfer to investment properties	–	–	–	–	(169,849)	(169,849)
Asset classified as held for sale	–	–	–	–	(166,945)	(166,945)
Disposals	(15,653)	–	(14,123)	(3,554)	(7,035)	(40,365)
Transfers	2,677	467	–	–	(3,144)	–
Exchange realignment	(6,402)	(364)	(4,971)	(134)	(9,322)	(21,193)
At 31 December 2019	285,677	16,384	221,799	6,442	376,344	906,646
Accumulated depreciation and impairment:						
At 1 January 2019	159,816	15,309	173,585	5,673	–	354,383
Depreciation provided during the year	9,229	397	18,292	927	–	28,845
Disposals	(1,973)	–	(11,085)	(2,889)	–	(15,947)
Exchange realignment	(3,625)	(342)	(3,919)	(83)	–	(7,969)
At 31 December 2019	163,447	15,364	176,873	3,628	–	359,312
Net book value:						
At 31 December 2019	122,230	1,020	44,926	2,814	376,344	547,334

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. Property, Plant and Equipment (Continued)

At 31 December 2020, the Group had yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK\$145,438,000 (2019: HK\$27,580,000).

The Group's buildings were revalued individually at the end of the reporting period by Debenham Tie Leung Limited and Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$242,158,000 (2019: HK\$120,543,000) as at 31 December 2020 based on their existing use. As a result, the Group recorded a revaluation reserve of HK\$59,648,000 credited to other comprehensive income for the current year (2019: HK\$7,631,000).

In 2020, certain properties were transferred to investment properties and a gain on revaluation for these properties up to the date of change-in-use was credited to other comprehensive income. In 2019, certain properties of the Group were transferred to the investment properties, resulting in a loss of HK\$6,091,000 at the date of transfer. Details of the above are included in note 15 to the financial statements.

There were no property, plant and equipment pledged as security for liability as at 31 December 2020 (2019: Nil). As at the date of this report, certain property, plant and equipment of the Group with a carrying value of HK\$127,620,000 as at 31 December 2020 were pledged as security for the Group's loan from a third party. Certain of the Group's bank and other borrowings are required to be secured by mortgages over the Group's buildings, which had a net carrying value at the end of the reporting period of approximately HK\$114,538,000. At the date of approval of these financial statements, the Group is in the process of applying for the abovementioned mortgage registration. Further details are set out in note 30 to the financial statements.

As at 31 December 2020, included in the Group's property, plant and equipment, certain buildings with a carrying amount of HK\$242,158,000 (2019: HK\$120,543,000) were stated at fair value using a revaluation model. The carrying amount that would have been recognised if the respective buildings had been carried under the cost model is HK\$162,188,000. The remaining property, plant and equipment (including construction in progress) with a carrying amount of HK\$62,890,000 (2019: HK\$426,791,000) were carried at historical cost.

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14. Property, Plant and Equipment (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's buildings stated at revalued amounts:

	Fair value measurement at 31 December 2020 using			Total HK\$'000
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	HK\$'000	HK\$'000	HK\$'000	
Recurring fair value measurement for:				
Industrial properties	–	–	127,620	127,620
Commercial properties	–	–	114,538	114,538
	–	–	242,158	242,158

	Fair value measurement at 31 December 2019 using			Total HK\$'000
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	HK\$'000	HK\$'000	HK\$'000	
Recurring fair value measurement for:				
Industrial properties	–	–	120,543	120,543

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. Property, Plant and Equipment (Continued)

Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial property HK\$'000	Industrial properties HK\$'000	Total HK\$'000
Carrying amount at 1 January 2019	–	123,207	123,207
Transfer from construction in progress	–	900	900
Depreciation provided during the year	–	(8,502)	(8,502)
Reserve on revaluation recognised in other comprehensive income	–	7,631	7,631
Exchange realignment	–	(2,693)	(2,693)
Carrying amount at 31 December 2019 and 1 January 2020	–	120,543	120,543
Transfer from construction in progress	58,941	–	58,941
Depreciation provided during the year	(1,631)	(9,117)	(10,748)
Reserve on revaluation recognised in other comprehensive income	51,171	8,477	59,648
Exchange realignment	6,057	7,717	13,774
Carrying amount at 31 December 2020	114,538	127,620	242,158

Set out below is a summary of the valuation technique used and the key inputs to the valuation of buildings:

	Valuation technique	Significant unobservable inputs	Range or weighted average 2020	Range or weighted average 2019
Industrial properties	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.)	a. 1,141 to 3,449	a. 1,119 to 3,381
		b. Administrative expense rate	b. 3%	b. 3%
		c. Unpredictable expense rate	c. 3%	c. 3%
		d. Rate of newness	d. 78% to 80%	d. 80% to 90%
Commercial properties	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.)	a. 7,423	N/A
		b. Administrative expense rate	b. 2%	
		c. Unpredictable expense rate	c. 5%	
		d. Rate of newness	d. 99% to 100%	

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. Property, Plant and Equipment (Continued)

Fair value hierarchy (Continued)

The Group has determined that the highest and best use of the buildings at the measurement date would be to convert those properties for commercial purposes. For strategic reasons, the properties are not being used in this manner.

The DRC approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence.

Impairment provision

When any indicators of impairment are identified, property, plant and equipment are reviewed for impairment based on each CGU. The carrying values of these CGUs were compared to the recoverable amounts of the CGUs, which were based predominantly on value-in-use.

During the year ended 31 December 2020, impairment losses for certain property, plant and equipment in the mobile phones CGU amounting to approximately HK\$22,611,000 have been recognised. The recoverable amount of the mobile phones CGU was HK\$161,661,000 as at 31 December 2020. Factors leading to the impairment include continuing operating losses of the Group in recent years due to fierce competition within the mobile phone market and the business disruption cause by the spread of COVID-19.

Value-in-use calculations use before-tax cash flow projections based on the 2021 financial budgets approved by management and are extrapolated using the same cash flow projections of the remaining years with changes being made to reflect the estimated changes in future market or economic conditions. Other key assumptions applied in the impairment testing include the future budgeted prices based on the market trend and budgeted sales quantity based on the existing production capacity. Management determined these key assumptions based on past performance and their expectations on market development. Further, the Group adopts a before-tax rate of 25.5% that reflects specific risks related to the mobile phones CGU as a discount rate. These estimates and judgments may be significantly affected by unexpected changes in the future market or economic conditions.

The impact of COVID-19 on the value-in-use calculation has been considered. While the methodologies and assumptions applied in the impairment testing remained unchanged from those applied in the prior financial year, the Group has incorporated estimates, assumptions and judgements specific to the impact of COVID-19 pandemic.

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15. Investment Properties

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Carrying amount at 1 January		389,118	222,563
Transferred from owner-occupied properties	14	512,272	169,849
Transferred from right-of-use asset	16	92,547	6,312
Loss on revaluation recognised upon change-in-use*		–	(6,091)
Surplus on revaluation recognised in other comprehensive income upon change-in-use*		993,370	–
Addition		517	–
Net gain from a fair value adjustment recognised in profit or loss	5	175,662	4,554
Exchange realignment		124,097	(8,069)
Carrying amount at 31 December		2,287,583	389,118

* Certain properties of HK\$512,272,000 together with the land use right of HK\$92,547,000 were transferred to investment properties and a surplus on revaluation up to the date of change-in-use of HK\$993,370,000 credited to other comprehensive income during the current year. During the prior year, the Group transferred certain manufacturing buildings and dormitories of HK\$169,849,000 together with the land use right of HK\$6,312,000 to investment properties and recorded the difference at that date between the carrying amount and the fair value of HK\$6,091,000 as a loss on revaluation charged to profit or loss.

The Group's investment properties consist of one Commercial property and certain Industrial properties in Mainland China. The Group's investment properties were revalued on 31 December 2020 based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and Debenham Tie Leung Limited, independent professionally qualified valuers, at HK\$2,287,583,000. Each year, the Group's property manager and the chief financial officer decide on the appointment of an external valuer for the valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 16 to the financial statements.

There were no investment properties pledged as security for liability as at 31 December 2020 (2019: Nil). As at the date of this report, certain investment properties of the Group with a carrying value of HK\$589,232,000 as at 31 December 2020 were pledged as security for the Group's loan from a third party. Further details are set out in notes 30 and 45 to the financial statements.

Certain of the Group's bank and other borrowings are required to be secured by mortgages over the Group's investment property situated in Mainland China, which had an carrying value at the end of the reporting period of HK\$1,698,351,000. At the date of approval of these financial statements, the Group is in the process of applying for the abovementioned mortgage registration. Further details are set out in note 30 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. Investment Properties (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement at 31 December 2020 using			Total HK\$'000	
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000		
	Recurring fair value measurement for:				
	Commercial properties	–	–		1,698,351
Industrial properties	–	–	589,232	589,232	
	–	–	2,287,583	2,287,583	

	Fair value measurement at 31 December 2019 using			Total HK\$'000	
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000		
	Recurring fair value measurement for:				
	Industrial properties	–	–		389,118

During the Year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. Investment Properties (Continued)

Fair value hierarchy (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial property HK\$'000	Industrial properties HK\$'000	Total HK\$'000
Carrying amount at 1 January 2019	–	222,563	222,563
Transferred from owner-occupied property and right-of-use asset	–	170,070	170,070
Net gain from a fair value adjustment recognised in profit or loss (<i>note 5</i>)	–	4,554	4,554
Exchange realignment	–	(8,069)	(8,069)
Carrying amount at 31 December 2019 and 1 January 2020	–	389,118	389,118
Transferred from owner-occupied properties	512,272	–	512,272
Transferred from right-of-use asset	92,547	–	92,547
Surplus on revaluation recognised in other comprehensive income upon change-in-use	993,370	–	993,370
Additions	–	517	517
Net gain from a fair value adjustment recognised in profit or loss (<i>note 5</i>)	10,353	165,309	175,662
Exchange realignment	89,809	34,288	124,097
Carrying amount at 31 December 2020	1,698,351	589,232	2,287,583

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. Investment Properties (Continued)

Fair value hierarchy (Continued)

Set out below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range or weighted average 2020*	Range or weighted average 2019
Industrial properties	Investment approach	a. Market monthly rental (RMB/sq.m.)	a. 18 to 40	a. 18
		b. Discount rate	b. 4% to 5.5%	b. 5% to 5.5%
		c. Market unit sale rate (RMB/sq.m.)	c. 3,526 to 6,680	c. 3,410 to 3,519
Commercial property	Investment approach	a. Market monthly rental (RMB/sq.m.)	a. 83 to 186	N/A
		b. Discount rate	b. 3% to 5.5%	
		c. Market unit sale rate (RMB/sq.m.)	c. 17,615	

* The investment properties as at 31 December 2020 represented the manufacturing buildings and dormitories held for lease located in Dongguan, and the commercial buildings held for lease located in Shenzhen.

The valuer adopted the investment approach to identify the property value by capitalising the rental income with due provisions for reversionary potential with a discount rate being determined by referring to sales evidence as available in the relevant market.

NOTES TO FINANCIAL STATEMENTS

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16. Leases

The Group as a lessee

The Group has lease contracts for various items of office and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 30 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 1 to 4 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	<i>Note</i>	Leasehold land HK\$'000	Properties HK\$'000	Total HK\$'000
As at 1 January 2019		189,438	25,802	215,240
Additions		–	2,848	2,848
Depreciation charge		(5,150)	(9,810)	(14,960)
Impairment		–	(3,210)	(3,210)
Transfer to investment properties		(6,312)	–	(6,312)
Transfer to other non-current assets		–	(2,856)	(2,856)
Transfer to assets classified as held for sale		(22,860)	–	(22,860)
Exchange realignment		(3,511)	(325)	(3,836)
As at 31 December 2019 and 1 January 2020		151,605	12,449	164,054
Additions		24,470	1,775	26,245
Disposals		–	(3,452)	(3,452)
Depreciation charge	6	(3,574)	(6,820)	(10,394)
Transfer to investment properties		(92,547)	–	(92,547)
Exchange realignment		5,751	294	6,045
As at 31 December 2020		85,705	4,246	89,951

As at the date of this report, one of the Group's leasehold land with a carrying value of HK\$26,101,000 as at 31 December 2020 were pledged as security for the Group's loan from a third party. Certain of the Group's bank and other borrowings are required to be secured by mortgages over the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of approximately HK\$11,153,000. At the date of approval of these financial statements, the Group was in the process of applying for the abovementioned mortgage registration. Further details are set out in note 30 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. Leases (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Carrying amount as at 1 January		17,320	25,168
New leases		1,775	2,848
Accretion of interest recognised during the year	7	1,012	1,527
Disposal		(4,502)	(627)
Payments	36	(8,689)	(11,183)
Exchange realignment		164	(413)
Carrying amount as at 31 December		7,080	17,320
Analysis into:			
Current portion		3,562	9,587
Non-current portion		3,518	7,733

The maturity analysis of lease liabilities is disclosed in note 43 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 HK\$'000	2019 HK\$'000
Interest on lease liabilities	1,012	1,527
Depreciation charge of right-of-use assets	10,394	14,960
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in selling expense and administrative expense)	2,558	739
Total amount recognised in profit or loss	13,964	17,226

(d) The total cash outflow for leases is disclosed in note 36(c) to the financial statements. As disclosed in note 39 to the financial statements, there were no future cash outflows relating to leases that have not yet commenced as at 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

16. Leases (Continued)

The Group as a lessor

The Group leases its investment properties consisting of one commercial property and certain industrial properties in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the Year was HK\$18,461,000 (2019: HK\$18,613,000), details of which are included in note 5 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	18,094	17,312
After one year but within five years	40,884	41,683
After five years	9,043	–
Carrying amount as at 31 December	68,021	58,995

NOTES TO FINANCIAL STATEMENTS

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17. Intangible Assets

	Product development costs HK\$'000	Patents and licences HK\$'000	Computer software HK\$'000	Total HK\$'000
31 December 2020				
Cost:				
At 1 January 2020	431,794	11,822	11,910	455,526
Additions	–	4,474	–	4,474
Exchange realignment	26,790	1,011	765	28,566
At 31 December 2020	458,584	17,307	12,675	488,566
Accumulated amortisation:				
At 1 January 2020	431,794	11,228	8,860	451,882
Provided during the year	–	442	1,200	1,642
Exchange realignment	26,790	748	637	28,175
At 31 December 2020	458,584	12,418	10,697	481,699
Net carrying amount:				
At 31 December 2020	–	4,889	1,978	6,867
	Product development costs HK\$'000	Patents and licences HK\$'000	Computer software HK\$'000	Total HK\$'000
31 December 2019				
Cost:				
At 1 January 2019	441,100	12,086	12,176	465,362
Exchange realignment	(9,306)	(264)	(266)	(9,836)
At 31 December 2019	431,794	11,822	11,910	455,526
Accumulated amortisation:				
At 1 January 2019	441,100	11,249	7,841	460,190
Provided during the year	–	228	1,213	1,441
Exchange realignment	(9,306)	(249)	(194)	(9,749)
At 31 December 2019	431,794	11,228	8,860	451,882
Net carrying amount:				
At 31 December 2019	–	594	3,050	3,644

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. Investments in Joint Ventures

	2020 HK\$'000	2019 HK\$'000
Share of net assets	203,642	195,404
Other*	(23,639)	(23,639)
Goodwill	8,318	8,318
	188,321	180,083

* Representing a refund of a capital contribution made in prior year.

The Group's balances with a joint venture are disclosed in note 40(a) to the financial statements.

Particulars of the Group's material joint ventures as at 31 December 2020 are as follows:

Name	Place of registration and business	Fully paid-up capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Dongguan Coolpad Tian'an Investment Development Co., Ltd. ("Dongguan Tian'an")	PRC/ Mainland China	RMB136,000,000	50	50	50	Investment holding and property development

Dongguan Tian'an

On 21 June 2016, the Group established Dongguan Tian'an with an independent third party whereby the Group and the independent third party each owns a 50% equity interest in Dongguan Tian'an. Certain assets, including a parcel of land and certain buildings under construction, were contributed by the Group as its investment in Dongguan Tian'an.

Dongguan Tian'an is engaged in investment holding and property development. Dongguan Tian'an is considered a material joint venture of the Group and is accounted for using the equity method.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. Investments in Joint Ventures (Continued)

Dongguan Tian'an (Continued)

The following table illustrates the summarised financial information in respect of Dongguan Tian'an adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2020 HK\$'000	2019 HK\$'000
Cash and cash equivalents	4,992	46,543
Properties under development	480,673	208,336
Other current assets	47,659	45,790
Current assets	533,324	300,669
Investment property	926,893	863,962
Other non-current assets	10,723	8,659
Non-current assets	937,616	872,621
Other payables and accruals	(113,907)	(81,227)
Other current liabilities	(31,467)	(3,426)
Current liabilities	(145,374)	(84,653)
Non-current liabilities	(922,708)	(697,829)
Net assets	402,858	390,808
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture	201,429	195,404
Other*	(23,639)	(23,639)
Goodwill	8,318	8,318
Carrying amount of the investment	186,108	180,083

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. Investments in Joint Ventures (Continued) Dongguan Tian'an (Continued)

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Revenue	5,458	3,127
(Loss)/profit for the year	(12,397)	258,098
Other comprehensive income/(loss) for the year	24,447	(6,180)
Total comprehensive income for the year	12,050	251,918

* Other represented a refund of a capital contribution made in prior year.

Individually immaterial joint venture

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2020 HK\$'000
Share of joint venture's profit for the year	858
Share of joint venture's other comprehensive income for the year	319
Share of joint venture's total comprehensive income for the year	1,177
Aggregate carrying amount of the Group's investment in joint venture	2,213

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19. Investments in Associates

	2020 HK\$'000	2019 HK\$'000
Share of net assets	320,999	359,623
Goodwill	1,201,710	1,201,710
	1,522,709	1,561,333
Impairment*	(1,256,992)	(1,256,992)
	265,717	304,341

* No impairment loss was recognised or reversed for the Group's investment in Coolpad E-commerce Group during the Year (2019: Nil).

The Group's balances with associates are disclosed in note 40(a) to the financial statements.

Particulars of the Group's material associates are as follows:

Name	Place of registration and business	Fully paid-up capital	Percentage of ownership interest attributable to the Group	Principal activities
Coolpad E-commerce Group	Cayman Islands	US\$20	25	Investment holding
Shenzhen Coolpad Mobile Tech Co., Ltd. ("Coolpad Mobile")	PRC/ Mainland China	RMB443,790,000	13.52	Sale of mobile phones

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. Investments in Associates (Continued)

The following table illustrates the summarised financial information in respect of Coolpad E-commerce Group and Coolpad Mobile and its subsidiaries (collectively, "Coolpad Mobile Group") adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

Coolpad E-commerce Group

	2020 HK\$'000	2019 HK\$'000
Cash and cash equivalents	644,128	855,500
Pledged deposits	3,240	–
Other current assets	384,510	322,122
Current assets	1,031,878	1,177,622
Non-current assets	28,532	11,196
Trade payables	(133,225)	(176,287)
Other current liabilities	(234,625)	(173,986)
Total current liabilities	(367,850)	(350,273)
Non-current liabilities	(4,633)	(11,794)
Net assets	687,927	826,751
Non-controlling interest	(40,729)	(37,350)
Equity attributable to owners of Coolpad E-commerce	647,198	789,401
Reconciliation to the Group's interest in Coolpad E-commerce:		
Proportion of the Group's ownership	25.0%	25.0%
Group's share of net assets of Coolpad E-commerce	161,800	197,350
Goodwill on acquisition (less cumulative impairment)	166	166
Carrying amount of the investment	161,966	197,516

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19. Investments in Associates (Continued) Coolpad E-commerce Group (Continued)

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Revenue	382,560	668,768
Loss for the year	(180,560)	(56,494)
Other comprehensive income/(loss) for the year	38,357	(19,849)
Total comprehensive loss for the year	(142,203)	(76,343)

Coolpad Mobile Group

Coolpad Mobile Group is engaged in the trading of mobile phones, and the provision of product design and software development for mobile handsets. Coolpad Mobile Group used to be a subsidiary group of the Company.

On 11 October 2016, the Group entered into a sale and purchase agreement with the then non-controlling shareholder of Coolpad Mobile Group to acquire its 40% equity interest in Coolpad Mobile Group at a cash consideration of RMB65,800,000 (equivalent to HK\$75,853,000). The change in the ownership interest in Coolpad Mobile Group was accounted for as an equity transaction.

On 12 December 2016, the Group disposed of its 80% equity interest in Coolpad Mobile Group to an independent third party for a cash consideration of RMB272,000,000 (equivalent to HK\$304,077,000). As a result, the Group lost its control over Coolpad Mobile Group and accounted for it as an associate thereafter. Coolpad Mobile Group is considered to be a material associate of the Group and has been accounted for using the equity method.

On 22 November 2017, as a result of additional capital contribution from the other shareholders of Coolpad Mobile Group, the equity interest of the Group was diluted from 20% to 13.52%. In the opinion of the Company's directors, the Group still maintained the significant influence over the associate and therefore continued to account for the remaining interest therein using the equity method.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. Investments in Associates (Continued) Coolpad Mobile Group (Continued)

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Cash and cash equivalents	10,532	8,386
Other current assets	129,026	133,030
Current assets	139,558	141,416
Non-current assets	80,488	87,838
Other payables and accruals	(111,120)	(125,982)
Other current liabilities	(113,498)	(70,381)
Current liabilities	(224,618)	(196,363)
Non-current liabilities	(76,636)	(111,635)
Net liabilities	(81,208)	(78,744)
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	13.52%	13.52%
Group's share of net liabilities of the associate	(10,979)	(10,646)
Additional investment during 2019	13,842	13,842
Impairment	(3,196)	(3,196)
Unrecognised share of losses	333	-
Carrying amount of the investment	-	-

NOTES TO FINANCIAL STATEMENTS

31 December 2020

19. Investments in Associates (Continued)

Coolpad Mobile Group (Continued)

Note:

Pursuant to the articles and association of Coolpad Mobile Group, the Group made good RMB12,400,000 (equivalent to HK\$13,842,000) as an additional investment during the year 2019 and no further obligation to take up additional losses of Coolpad Mobile Group. The Group therefore considered no provision for the share of the additional losses during the current year (2019: Nil).

	Year ended 31 December 2020 HK\$'000	Year ended 31 December 2019 HK\$'000
Revenue	185,457	839,257
Profit/(loss) for the year	2,464	(24,181)
Other comprehensive (loss)/income for the year	(4,928)	1,066
Total comprehensive loss for the year	(2,464)	(23,115)

Other individually immaterial associates

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2020 HK\$'000	2019 HK\$'000
Share of associates' losses for the year	(1,914)	(1,425)
Share of associates' other comprehensive income/(loss) for the year	762	(367)
Share of associates' total comprehensive loss for the year	(1,152)	(1,792)
Aggregate carrying amount of the Group's investments in associates	103,751	106,825

As at 31 December 2020, the Group's 20% share in the investment in an associate, Nanjing Yulong Weixin Information Scientific Limited, with a carrying value of HK\$25,506,000 (2019: 25,613,000) was pledged as security for a shareholder loan of this associate.

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20. Inventories

	2020 HK\$'000	2019 HK\$'000
Raw materials	122,233	80,032
Work in progress	29,517	16,041
Finished goods	29,818	158,182
	181,568	254,255

21. Trade Receivables

	2020 HK\$'000	2019 HK\$'000
Trade receivables	410,508	728,555
Impairment	(305,602)	(305,975)
	104,906	422,580

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. In the case of long-standing customers and those with a good repayment history, the Group may offer these customers with a credit period of 30 to 90 days. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction date, is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 3 months	100,229	365,773
4 to 6 months	2,777	23,549
7 to 12 months	5,192	37,907
Over 1 year	302,310	301,326
	410,508	728,555
Less: Impairment	(305,602)	(305,975)
	104,906	422,580

NOTES TO FINANCIAL STATEMENTS

31 December 2020

21. Trade Receivables (Continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 January	305,975	301,900
(Reversal of impairment)/impairment loss, net (note 6)	(2,423)	6,530
Exchange realignment	2,050	(2,455)
	305,602	305,975

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.

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 2020

	Ageing			Total
	Within 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	0.10%–25.10%	100%	100%	
Gross carrying amount (HK\$'000)	108,198	472	301,838	410,508
Expected credit losses (HK\$'000)	3,292	472	301,838	305,602

As at 31 December 2019

	Ageing			Total
	Within 1 year	1 to 2 years	Over 2 years	
Expected credit loss rate	0.54%–22.20%	100%	100%	
Gross carrying amount (HK\$'000)	427,229	18,565	282,761	728,555
Expected credit losses (HK\$'000)	4,649	18,565	282,761	305,975

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22. Bills Receivable

An ageing analysis of the bills receivable as at the end of the reporting period, based on the issue date, is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 3 months	3,373	–

Bills receivable as at 31 December 2020 are non-interest-bearing.

At 31 December 2020, the Group did not have any past due or impaired bills receivable. An impairment analysis is performed at 31 December 2020 according to the expected credit loss model and the loss calculated for the remaining balance of bills receivable was not material and had no impact on the Group's consolidated financial statements.

23. Loans Receivable

	2020 HK\$'000	2019 HK\$'000
Loans receivable	–	3,370
Non-current portion	–	(1,098)
Short-term loans receivable	–	2,272

Huiying, a wholly-owned subsidiary of the Group, was established in 2014 and engaged in the provision of financing services. As the disposal of Huiying was completed on 2 July 2020, there were no loans receivables as at 31 December 2020.

During the year ended 31 December 2019, those loans receivable bore interest at rates ranging from 5% to 10% per annum. The grants of these loans were approved and monitored by the Group's management. Except for loans receivable with an aggregate carrying amount of HK\$2,233,000, which were secured by the pledge of collateral or guarantees by certain independent third parties, the loans receivable as at 31 December 2019 were unsecured.

An impairment analysis is performed at each reporting date according to the expected credit loss model. At the end of the reporting period, the loss calculated for the remaining balance of loans receivable was not material and had no impact on the Group's consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. Loans Receivable (Continued)

An ageing analysis of loans receivable, determined based on the age of the loans receivable since the effective draw-down date of the loans, as at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
Over 1 year	–	3,370

24. Prepayments, Deposits and Other Receivables

	2020 HK\$'000	2019 HK\$'000
Prepayments for other suppliers	16,680	19,574
Deposits and other receivables	77,813	119,943
Deductible input VAT	207,843	271,499
Prepaid expenses	357	27,582
	302,693	438,598
Non-current portion	(2,804)	(35,791)
	299,889	402,807

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there are no comparable companies as at 31 December 2020 was 0.1% (2019: 0.1%).

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

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25. Financial Assets at Fair Value through Profit or Loss

	2020 HK\$'000	2019 HK\$'000
Listed equity investments, at fair value	2,056	73,983
Other unlisted investments, at fair value	84,879	20,386
	86,935	94,369

The above investments were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

26. Assets Classified as Held for Sale

	2020 HK\$'000	2019 HK\$'000
Assets classified as held for sale	198,777	186,323

On 25 April 2019, the Group entered into an agreement with Xi'an Hi-Tech Industrial Development Zone in respect of the disposal of a certain parcel of land and the construction in progress held by Xi'an Coolpad Equipment with a transaction price of RMB236,293,000 (equivalent to HK\$265,907,000). The relevant transfer procedures were completed in February 2021. As at 31 December 2020 and 2019, the land and the construction in progress under the disposal plan were classified as assets held for sale which were stated at the lower of their carrying amounts and fair values less costs to sell.

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27. Cash and Cash Equivalents and Pledged Deposits

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances	208,773	297,420
Time deposits	79,427	66,866
	288,200	364,286
Less: pledged deposits for:		
– A performance guarantee and a letter of credit	(79,427)	(66,866)
Cash and cash equivalents	208,773	297,420

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK\$46,174,000 (2019: HK\$135,529,000). 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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28. Trade Payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the transaction date, is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 3 months	159,905	332,458
4 to 6 months	15,677	46,957
7 to 12 months	8,564	34,629
Over 1 year	68,609	91,917
	252,755	505,961

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

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29. Other Payables and Accruals

	Notes	2020 HK\$'000	2019 HK\$'000
Accrued royalties		510,879	511,417
Contract liabilities	(a)	22,676	13,834
Product warranty provision	(b)	18,942	22,844
Accrued sales incentives		49,148	74,650
Advance received for the disposal of a parcel of land and construction in progress	(c)	245,108	230,294
Other accruals		67,441	59,128
Other payables		586,705	490,323
		1,500,899	1,402,490

Other payables are non-interest-bearing and repayable on demand.

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000	1 January 2019 HK\$'000
<i>Short-term advances received from customers</i>			
Sale of mobile phones and related accessories	22,676	13,834	55,341

Contract liabilities include short-term advances received to deliver mobile phones and accessories. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the sale of goods close to the end of the year. The decrease in contract liabilities in 2019 was mainly due to the decrease in short-term advances received from customers in relation to the sale of goods close to the end of the year.

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29. Other Payables and Accruals (Continued)

Notes: (Continued)

(b) The movements in the product warranty provision are as follows:

	Note	2020 HK\$'000	2019 HK\$'000
At 1 January		22,844	21,083
(Reversal)/additional provision	6	(2,493)	10,373
Amounts utilised during the year		(3,022)	(8,464)
Exchange realignment		1,613	(148)
At 31 December		18,942	22,844

The Group provides one-year warranties for its products sold to customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised, where appropriate.

(c) Advance received for the disposal of a parcel of land and construction in progress

As at 31 December 2020, the balance represented the aggregate amount of RMB206 million received by the Group from Xi'an Hi-Tech Industrial Development Zone for the disposal of a parcel of land and construction in progress located in Xi'an.

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31 December 2020

30. Interest-Bearing Bank and Other Borrowings

	31 December 2020			31 December 2019		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current						
Bank loans						
– secured	7.2	2021	297,039	–	–	–
Other borrowings						
– secured	7.0-8.0	On demand	237,631	Prime rate+2%	On demand	17,170
– unsecured	–	–	–	4.54	2020	223,269
			534,670			240,439
					2020	2019
					HK\$'000	HK\$'000
Analysed into bank loans:						
Within one year or on demand					297,039	–
Analysed into other borrowings:						
Within one year or on demand					237,631	240,439
					534,670	240,439

NOTES TO FINANCIAL STATEMENTS

31 December 2020

30. Interest-Bearing Bank and Other Borrowings (Continued)

Notes:

- (a) At 31 December 2020, none of the Group's bank and other borrowings bore interest at floating rates (2019: HK\$240,439,000).
- (b) At 31 December 2020, all bank and other borrowings are denominated in RMB.
- (c) As of 31 December 2019, certain of the Group's other borrowings were secured by mortgages over the Group's listed equity investments, which had an aggregate carrying value of approximately HK\$71,993,000.

In addition, Mr. CHEN Jiajun, an executive director and the Chairman of the Board has provided a personal guarantee for the Group's bank loan up to HK\$297,039,000 (2019: Nil) as at the end of the reporting period.

Save as disclosed in notes 14, 15 and 16 to the financial statements, certain of the Group's bank and other borrowings are required to be secured by:

- (i) mortgages over the Group's buildings, which had a net carrying value at the end of the reporting period of approximately HK\$114,538,000;
- (ii) mortgages over the Group's investment property situated in Mainland China, which had an carrying value at the end of the reporting period of HK\$1,698,351,000;
- (iii) mortgages over the Group's right-of-use assets, which had a net carrying value at the end of the reporting period of approximately HK\$11,153,000.

At the date of approval of these financial statements, the Group is in the process of applying for the abovementioned mortgage registration.

- (d) Subsequent to the end of the reporting period, on 5 February 2021, the Group entered into an agreement with the borrower to extend a loan included in other borrowings amounting to RMB100 million from September 2020 to September 2022. Pursuant to the agreement, certain investment properties, property, plant and equipment and right-of-use assets of the Group with a carrying value of HK\$589 million, HK\$128 million and HK\$26 million as at 31 December 2020 respectively were pledged as security for the loan.

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31. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Revaluation of buildings HK\$'000	Withholding taxes HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2019	35,260	8,209	1,866	45,335
Charged to equity during the year	1,908	–	–	1,908
Charged to profit or loss for the year (note 10)	1,006	–	–	1,006
Exchange differences	(825)	–	–	(825)
At 31 December 2019 and 1 January 2020	37,349	8,209	1,866	47,424
Charged to equity during the year	263,255	–	–	263,255
Charged to profit or loss for the year (note 10)	45,211	–	–	45,211
Exchange differences	19,624	–	–	19,624
At 31 December 2020	365,439	8,209	1,866	375,514

Deferred tax assets

	Deductible amortisation allowance HK\$'000
At 1 January 2019	660
Charged to profit or loss for the year (note 10)	(104)
Exchange differences	(13)
At 31 December 2019 and 1 January 2020	543
Charged to profit or loss for the year (note 10)	(103)
Exchange differences	30
At 31 December 2020	470

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31. Deferred Tax (Continued)

Deferred tax liabilities not recognised

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by the PRC subsidiaries in respect of their earnings generated from 1 January 2008.

At 31 December 2020, the Group has not recognised deferred tax liabilities of HK\$281,088,000 (2019: HK\$284,478,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK\$2,810,884,000 (2019: HK\$2,844,777,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and determines that it is not probable that these profits will be distributed in the foreseeable future.

Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	2020 HK\$'000	2019 HK\$'000
Tax losses	2,048,856	1,132,463
Deductible temporary differences	433,594	679,826
	2,482,450	1,812,289

The Group had total accumulated tax losses arising in Mainland China, United States and Hong Kong of HK\$2,048,856,000 (2019: HK\$1,132,463,000) for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that sufficient taxable profits will be available against which the above items can be utilised.

NOTES TO FINANCIAL STATEMENTS

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32. Share Capital and Reserves

(a) Share capital

	2020 HK\$'000	2019 HK\$'000
Authorised: 20,000,000,000 (2019: 20,000,000,000) ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid: 6,533,407,480 (2019: 5,833,407,480) ordinary shares of HK\$0.01 each	65,334	58,334

A summary of the transactions during the year with reference to the movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2019	5,033,407,480	50,334	1,235,632	1,285,966
Issue of shares	800,000,000	8,000	163,964	171,964
	5,833,407,480	58,334	1,399,596	1,457,930
Share issue expenses	–	–	(467)	(467)
At 31 December 2019 and 1 January 2020	5,833,407,480	58,334	1,399,129	1,457,463
Issue of shares	700,000,000	7,000	109,000	116,000
	6,533,407,480	65,334	1,508,129	1,573,463
Share issue expenses	–	–	(283)	(283)
At 31 December 2020	6,533,407,480	65,334	1,507,846	1,573,180

On 30 June 2020, a total of 200,000,000 shares were allotted and issued by the Group to a subscriber at the subscription price of HK\$0.13 per subscription share, resulting in the issue of 200,000,000 shares for a total consideration, before expenses, of HK\$26,000,000. On 13 November 2020, a total of 500,000,000 shares were allotted and issued by the Group to a subscriber at the subscription price of HK\$0.18 per subscription share, resulting in the issue of 500,000,000 shares for a total consideration, before expenses, of HK\$90,000,000.

Subsequent to the end of the reporting period, the Group successfully completed a placing of 666,000,000 shares at a price of HK\$0.28 per share with net proceeds of approximately HK\$186 million on 8 March 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

32. Share Capital and Reserves (Continued)

(b) Reserves

(i) Share premium account

Share premium can be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company would be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(ii) Statutory reserve

Pursuant to the relevant laws and regulations in the PRC, the companies comprising the Group which are registered in the PRC shall appropriate a certain percentage of their net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. When the balance of this reserve reaches 50% of the entity's capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after those usages.

(iii) Capital redemption reserve

Capital redemption reserve arises from repurchase of its own ordinary shares on the Stock Exchange. All the repurchased shares are cancelled by the Company upon such repurchase and accordingly the issued share capital of the Company is reduced by the nominal value of these shares. The premium paid on the repurchase is charged to the share premium account.

(iv) Other reserve

Other reserve mainly represents the difference between the cost of acquisition and the non-controlling interests acquired in the case of acquisition of additional non-controlling interests of subsidiaries, and, the difference between the proceeds from disposal and the non-controlling interests disposed of in the case of disposal of partial equity interests in subsidiaries to non-controlling shareholders without loss of control.

NOTES TO FINANCIAL STATEMENTS

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33. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's non-executive directors, independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Company's first share option scheme with a valid period of 10 years became effective on 21 November 2004 and was terminated on 23 May 2014 since this scheme expired on 21 November 2014. A new share option scheme was adopted by the Company and became effective on 23 May 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group is an amount equivalent, upon their exercise, to 10% of the shares in issue at the time dealings in the shares first commence on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2020		2019	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.2958	496,088	1.5714	29,468
Granted during the year	–	–	0.2242	469,800
Forfeited during the year	0.2650	(136,592)	–	–
Expired during the year	1.5313	(10,096)	1.5400	(3,180)
At 31 December	0.2721	349,400	0.2958	496,088

No share options were exercised in 2020 (2019: Nil).

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33. Share Option Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2020

Number of options '000	Exercise price* HK\$	Exercise period
2,200	1.492	22-01-17 to 22-01-21
10,000	1.620	16-10-17 to 16-10-21
53,200	0.2242	14-05-20 to 13-05-24
53,200	0.2242	14-05-21 to 13-05-24
53,200	0.2242	14-05-22 to 13-05-24
53,200	0.2242	14-05-23 to 13-05-24
31,100	0.2242	14-11-20 to 13-11-24
31,100	0.2242	14-11-21 to 13-11-24
31,100	0.2242	14-11-22 to 13-11-24
31,100	0.2242	14-11-23 to 13-11-24
349,400		

2019

Number of options '000	Exercise price* HK\$	Exercise period
7,000	1.492	22-01-16 to 22-01-20
2,200	1.492	22-01-17 to 22-01-21
7,088	1.620	16-10-16 to 16-10-20
10,000	1.620	16-10-17 to 16-10-21
53,200	0.2242	14-05-20 to 13-05-24
53,200	0.2242	14-05-21 to 13-05-24
53,200	0.2242	14-05-22 to 13-05-24
53,200	0.2242	14-05-23 to 13-05-24
64,250	0.2242	14-11-20 to 13-11-24
64,250	0.2242	14-11-21 to 13-11-24
64,250	0.2242	14-11-22 to 13-11-24
64,250	0.2242	14-11-23 to 13-11-24
496,088		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in Company's share capital.

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33. Share Option Scheme (Continued)

None share options were granted during the year ended 31 December 2020. The fair value of the share options granted during the year ended 31 December 2019 was HK\$35,651,000 (HK\$0.08 each), of which the Group recognised a share option expense of HK\$2,689,000 during that year.

The Group recorded a share option expense of HK\$10,789,000 (2019: expense of HK\$1,327,000) due to the amortisation of certain share options granted in prior years during the year ended 31 December 2020.

At the end of the reporting period, the Company had 349,400,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 349,400,000 additional ordinary shares of the Company and additional share capital of HK\$3,494,000 and share premium of HK\$91,588,640 (before issue expenses).

Subsequent to the end of the reporting period, a total of 1,912,000 share options were exercised, resulting in the issue of 1,912,000 ordinary shares of the Company, whereas 18,741,000 share options were forfeited and 2,200,000 share options expired.

At the date of approval of these financial statements, the Company had 326,547,000 share options outstanding under the Scheme, which represented approximately 4.53% of the Company's shares in issue as at that date.

34. Business Combination

On 30 November 2020, the Group acquired a 100% interest in Helong Technology from certain individual shareholders. Helong Technology is engaged in the provision of wireless application services. The acquisition was made as part of the Group's strategy to expand its business of wireless application services. The purchase consideration for the acquisition was in the form of settlement of the receivables from these individual shareholders, amounting to HK\$12,961,000 at the acquisition date.

The fair values of the identifiable assets and liabilities of Helong Technology as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	HK\$'000
Cash and bank balances	16,980
Trade receivables	713
Prepayments and other receivables	14,545
Trade payables	(19,047)
Contract liabilities	(141)
Accruals and other payables	(89)
Total identifiable net assets at fair value	12,961
Satisfied by:	
Other receivables	12,961

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34. Business Combination (Continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK\$'000
Cash consideration	–
Cash and cash equivalents acquired	16,980
Net inflow of cash and cash equivalents included in cash flows from investing activities	16,980

Since the acquisition, Helong Technology contributed HK\$7,380,000 to the Group's revenue and HK\$371,000 to the consolidated profit for the year ended 31 December 2020.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK\$88,753,000 and HK\$6,364,000, respectively.

35. Disposal of Subsidiaries

(a) Year ended 31 December 2020

During the Year, the Group disposed of one of its subsidiaries, Huiying (also reported as a discontinued operation as disclosed in Note 11).

	Discontinued operation Huiying HK\$'000
Net assets disposed of:	
Long-term loans receivable	924
Short-term loans receivable	192,480
Other receivables	196
Cash and bank balances	178,842
Other payables and accruals	(7,174)
Tax payable	(2,206)
	363,062
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	51,743
Loss on disposal of a subsidiary	(55,723)
	359,082
Satisfied by:	
Cash	359,082

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35. Disposal of Subsidiaries (Continued)

(b) Year ended 31 December 2019

Coolpad Technologies India Pvt, Ltd. ("Coolpad India") was a subsidiary of the Group, of which 100% of its equity interest was attributable to the Group. On 31 March 2019, the Group agreed to transfer its 100% equity interest in Coolpad India to an independent third party for a consideration of HK\$1,466,000. As a result, the Group lost its control over Coolpad India and recorded no loss and gain therefrom.

	Coolpad India
	HK\$'000
Net assets disposed of:	
Cash and bank balances	1,495
	<u>1,495</u>
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	(29)
	<u>1,466</u>
Satisfied by:	
Other payables	1,466

An analysis of the net inflow of cash and cash equivalents in respect of the loss of control over subsidiaries is as follows:

	2020	2019
	HK\$'000	HK\$'000
Cash consideration	359,082	–
Consideration received for disposals in prior years	–	11,322
Cash and cash equivalents disposed of	(178,842)	(1,495)
Net inflow of cash and cash equivalents in respect of the loss of control of subsidiaries	180,240	9,827

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36. Notes to the Consolidated Statement of Cash Flows

(a) Major non-cash transactions

During the year ended 31 December 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$1,775,000 and HK\$1,775,000, respectively, in respect of lease arrangements for offices premises (2019: HK\$2,848,000 and HK\$2,848,000).

During the year ended 31 December 2020, none of the Group's amounts due from associates and its amounts due to associates have been offset (2019: HK\$51,352,000).

(b) Changes in liabilities arising from financing activities

	2020			
	Bank and other borrowings	Interest payable	An amount due to a related party	Lease liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2019 and 1 January 2020	240,439	25,276	269,432	17,320
Changes from financing cash flows	264,162	(40,037)	(138,587)	(8,689)
New leases	–	–	–	1,775
Termination of leases	–	–	–	(4,502)
Interest expense	–	19,882	16,094	1,012
Exchange realignment	30,069	75	10,492	164
At 31 December 2020	534,670	5,196	157,431	7,080

	2019					
	Bank and other loans	Interest payable	Advance in respect of a proposed issue of convertible bonds	An amount due to a related party	Lease liabilities	Payables for acquisition of non-controlling interest included in other payables
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	228,258	14,221	58,195	202,129	25,168	11,429
Changes from financing cash flows	17,170	(11,601)	(58,195)	58,471	(11,183)	(2,351)
New leases	–	–	–	–	2,848	–
Termination of leases	–	–	–	–	(627)	–
Interest expense	–	23,349	–	16,202	1,527	–
Exchange realignment	(4,989)	(693)	–	(7,370)	(413)	(1,290)
At 31 December 2019	240,439	25,276	–	269,432	17,320	7,788

NOTES TO FINANCIAL STATEMENTS

31 December 2020

36. Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Total cash outflow for leases

Total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2020 HK\$'000	2019 HK\$'000
Within operating activities	2,558	739
Within financing activities	8,689	11,183
	11,247	11,922

37. Contingencies

(a) Litigation with customers

A subsidiary of the Group is currently a plaintiff in a lawsuit with certain customers in the United States of America, who refused to settle trade receivables of approximately US\$25,000,000 (equivalent to HK\$193,815,000) (2019: US\$25,000,000). When preparing these consolidated financial statements, the aforesaid lawsuit was still in progress.

(b) Litigations with suppliers

The Group received several civil complaints in 2020 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB52 million (equivalent to HK\$62 million) (2019: RMB41 million). The arbitration procedures of the civil complaints were still in progress as at the date of approval of the consolidated financial statements.

38. Pledge of Assets

Details of the Group's assets pledged for the Group's other borrowings, for a loan granted to an associate and for performance guarantee provided to a bank and issuance of letter of credit are included in notes 14, 15, 16, 19 and 27, respectively, to the financial statements.

39. Commitments

(a) The Group had the following capital commitments at the end of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Contracted, but not provided for construction in progress	2,037,825	1,142,430
Capital contributions payable to certain associates or an unlisted investment measured at fair value	23,763	22,327
	2,061,588	1,164,757

(b) The Group had no lease contract that has not yet commenced as at 31 December 2020.

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40. Related Party Transactions

(a) Balances with related parties

	2020 HK\$'000	2019 HK\$'000
Amounts due from associates (i)	3,170	7,080
An amount due from a joint venture (ii)	7,937	–
	11,107	7,080
Amounts due to associates (i)	43,578	52,811
An amount due to a joint venture (iii)	1,764	–
Amounts due to other related parties (iv)	167,225	269,432
	212,567	322,243

- (i) Amounts due from/to associates represented the trade receivables from and the deposits and advances payable to associates which arose in the course of the Group's operation.
- (ii) An amount due from a joint venture were non-trade in nature except the amount due from a joint venture amounting to HK\$1,378,000, which is related to the sale of fixed assets.
- (iii) An amount due to a joint venture represented the payable for the capital injection of Chuangku New Material pursuant to the articles of association. This balance is unsecured, interest-free and has no fixed terms of repayment.
- (iv) The balance represented:
- a) an amount due to Kingkey Property Management Co., Ltd. for the property management service expense amounting to HK\$9,794,000 as at 31 December 2020, which is unsecured, interest-free and has no fixed terms of repayment and;
 - b) the loan and related interest due to Kingkey Group amounting to HK\$157,431,000 as at 31 December 2020, which is unsecured, on demand at an annual interest rate of 6.5%.

Kingkey Group is an associate of Great Shine Investment Limited, a substantial shareholder of the Company, and therefore a related party of the Group. Kingkey Property Management Co., Ltd. is a subsidiary of Kingkey Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. Related Party Transactions (Continued)

(b) Transactions with related parties

	2020 HK\$'000	2019 HK\$'000
Associates:		
Sale of products	246	1,178
Purchase of raw materials	–	3,558
Sale of assets	–	11
Service income	1,072	13,794
	11,107	7,080

	2020 HK\$'000	2019 HK\$'000
A joint venture:		
Sale of assets	1,378	–

	2020 HK\$'000	2019 HK\$'000
Other related parties:		
Loan arrangement (i)	–	56,861
Interest expense (i)	16,094	16,202
Management service expense (ii)	9,794	–

(i) In 2018, Kingkey Group has agreed to provide a loan with a maximum amount of no more than RMB500 million to the Group for corporate operation with a term of 12 months at an annual interest rate of 6.5%. In 2019 and 2020, the loan arrangement was extended to 20 May 2021 and further extended to a date no later than 31 December 2022. The specific due date after extension is subject to further negotiation between both parties according to their own capital needs. Up to 31 December 2020, the remaining loan amount drawn down by the Group was HK\$137,113,000 and the associated interest expense recognised for the current year amounted to HK\$16,094,000.

(ii) Commencing from 1 September 2020, the Group purchases the property management service from Shenzhen Kingkey Property Management Co., Ltd. The purchase price of the management service is RMB 25 per month per square meter and other extra service expense. Property management service expense were made according to the prevailing market rates charged by independent third parties offering comparable management services for properties of comparable scale and grade in the vicinity.

The above transactions with related parties were made based on mutually agreed terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. Related Party Transactions (Continued)

(c) Compensation of key management personnel of the Group

In addition to the amounts paid to the Company's directors as disclosed in note 8 to the financial statements, compensation of other key management personnel of the Group is set out below:

	2020 HK\$'000	2019 HK\$'000
Salaries, allowances and benefits in kind	9,351	14,514
Pension scheme contributions	699	269
Equity-settled share option expense	461	264
Total compensation paid to other key management personnel	10,511	15,047

41. 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

2020

	Financial assets at amortised cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Total HK\$'000
Trade receivables	104,906	–	104,906
Bills receivable	3,373	–	3,373
Financial assets included in prepayments, deposits and other receivables	77,813	–	77,813
Financial assets at fair value through profit or loss	–	86,935	86,935
Amounts due from associates	3,170	–	3,170
An amount due from a joint venture	7,937	–	7,937
Pledged deposits	79,427	–	79,427
Cash and cash equivalents	208,773	–	208,773
	485,399	86,935	572,334

NOTES TO FINANCIAL STATEMENTS

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41. Financial Instruments by Category (Continued)

Financial assets (Continued)

2019

	Financial assets at amortised cost HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial assets at fair value through other comprehensive income – debt instruments HK\$'000	Total HK\$'000
Trade receivables	100,436	–	322,144	422,580
Loans receivable	3,370	–	–	3,370
Financial assets included in prepayments, deposits and other receivables	119,943	–	–	119,943
Financial assets at fair value through profit or loss	–	94,369	–	94,369
Amounts due from associates	7,080	–	–	7,080
Pledged deposits	66,866	–	–	66,866
Cash and cash equivalents	297,420	–	–	297,420
	595,115	94,369	322,144	1,011,628

Financial liabilities

	2020 HK\$'000	2019 HK\$'000
Financial liabilities at amortised cost		
Trade payables	252,755	505,961
Financial liabilities included in other payables and accruals	1,103,567	1,262,312
Interest-bearing bank and other borrowings	534,670	240,439
Lease liabilities	7,080	17,320
An amount due to a joint venture	1,764	–
Amounts due to associates	43,578	52,811
Amounts due to related parties	167,225	269,432
	2,110,639	2,348,275

NOTES TO FINANCIAL STATEMENTS

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42. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Financial assets				
Financial assets included in prepayments, deposits and other receivables, non-current portion	2,447	8,209	2,447	8,209
Financial assets at fair value through profit or loss	86,935	94,369	86,935	94,369
Financial assets at fair value through other comprehensive income	–	322,144	–	322,144
	89,382	424,722	89,382	424,722
Financial liabilities				
An amount due to a related party	157,431	269,432	157,431	269,432
Interest-bearing bank and other borrowings	534,670	240,439	534,670	240,439
	692,101	509,871	692,101	509,871

Management has assessed that the fair values of trade and bills receivables, loans receivable, the current portion of financial assets included in prepayments, deposits and other receivables, amounts due from associates, an amount due from a joint venture, pledged deposits, cash and cash equivalents, trade payables, financial liabilities included in other payables and accruals, an amount due to a joint venture, amounts due to associates and an amount due to a related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The valuation process and results are discussed with the chief financial officer twice a year for interim and annual financial reporting.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

42. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial assets included in prepayments, deposits and other receivables, interest-bearing bank and other borrowings and amounts due to related parties have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings and amounts due to related parties as at 31 December 2020 were assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted investments designated at fair value through profit or loss, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates, or an asset-based valuation technique.

The fair values of financial assets at fair value through other comprehensive income as at 31 December 2019 had been estimated using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

For the fair value of the unlisted investments at fair value through profit or loss estimated using market-based valuation technique, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020 and 2019:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted investment vehicles	Valuation multiples	Average P/S multiple of peers	2020: 1.40% to -1.40% (2019: 1.23% to -1.23%)	1% (2019: 1%) increase/decrease in multiple would result in increase/decrease in fair value by approximately HK\$33,000 (2019: HK\$29,000)
		Discount for lack of marketability	2020: 1.93% to -1.93% (2019: 1.68% to -1.68%)	1% (2019: 1%) increase/decrease in multiple would result in decrease/increase in fair value by approximately HK\$46,000 (2019: HK\$40,000)
	Asset-based approach	Net assets	N/A	N/A

NOTES TO FINANCIAL STATEMENTS

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42. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2020

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets at fair value through profit or loss	2,056	–	84,879	86,935

As at 31 December 2019

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets at fair value through profit or loss	73,983	–	20,386	94,369
Financial assets at fair value through comprehensive income	–	–	322,144	322,144

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42. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
At 1 January	342,530	137,574
Transfer from financial assets measured at amortised cost	–	24,741
Additions	185,971	653,230
Total gain recognised in the statement of profit or loss, net	29,234	82,240
Disposal	(474,137)	(351,549)
Transfer to level 1	–	(202,099)
Exchange realignment	1,281	(1,607)
Fair value at the end of year	84,879	342,530

Except for disclosed in the above table, there are no transfers of fair value measurements between Level 1 and Level 2 and no other transfers into or out of Level 3 for both financial assets and financial liabilities (2019: Nil).

Liabilities for which fair values are disclosed:

As at 31 December 2020

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing bank and other borrowings	–	297,039	237,631	534,670
An amount due to a related party	–	157,431	–	157,431
	–	454,470	237,631	692,101

NOTES TO FINANCIAL STATEMENTS

31 December 2020

42. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed: (Continued)

As at 31 December 2019

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing bank and other borrowings	–	17,170	223,269	240,439
An amount due to a related party	–	269,432	–	269,432
	–	286,602	223,269	509,871

The Group did not have any financial liabilities measured at fair value as at 31 December 2020.

43. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, amounts due to related parties, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade and bills receivables, loans receivable, amounts due from associates, an amount due from a joint venture, trade payables and amounts due to associates, 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 board of directors reviews and agrees policies for managing these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings which bear interest at floating rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 30 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's (loss)/profit before tax (through the impact on floating rate borrowings).

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31 December 2020

43. Financial Risk Management Objectives and Policies (Continued) Interest rate risk (Continued)

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax HK\$'000
2019		
RMB	100	(2,233)
RMB	(100)	2,233
HKD	100	(172)
HKD	(100)	172

At 31 December 2020, none of the Group's bank and other borrowings bore interest at floating rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue and cost of sales are denominated in US\$ and Euro ("EUR"). The Group is exposed to foreign exchange risk with respect mainly to USD and EUR. The Group makes rolling forecasts on foreign currency revenue and expenses and matches the currency and the amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rates, with all other variables held constant, of the Group's (loss)/profit before tax (due to changes in the fair values of monetary assets and liabilities). Other components of equity would have no change.

	Increase/ (decrease) in USD %	Increase/ (decrease) in loss before tax HK\$'000
2020		
If RMB weakens against USD	5	50,078
If RMB strengthens against USD	(5)	(50,078)
	Increase/ (decrease) in USD %	(Decrease)/ increase in profit before tax HK\$'000
2019		
If RMB weakens against USD	5	(34,149)
If RMB strengthens against USD	(5)	34,149

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

	Increase/ (decrease) in EUR %	(Decrease)/ increase in loss before tax HK\$'000
2020		
If RMB weakens against EUR	5	(151)
If RMB strengthens against EUR	(5)	151
If HK\$ weakens against EUR	5	(1,520)
If HK\$ strengthens against EUR	(5)	1,520
	Increase/ (decrease) in EUR %	Increase/ (decrease) in profit before tax HK\$'000
2019		
If RMB weakens against EUR	5	783
If RMB strengthens against EUR	(5)	(783)
If HK\$ weakens against EUR	5	759
If HK\$ strengthens against EUR	(5)	(759)

Credit risk

Credit risk for the sale of mobile phones

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

The tables below show 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. The amounts presented are gross carrying amounts for financial assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2020

	12-month ECLs		Lifetime ECLs		Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	–	–	–	410,508	410,508
Bills receivable	3,373	–	–	–	3,373
Financial assets included in prepayments, deposits and other receivables					
– Normal**	77,813	–	–	–	77,813
– Doubtful**	–	–	–	–	–
An amount due from a joint venture					
– Not yet past due	7,937	–	–	–	7,937
Amounts due from associates					
– Not yet past due	3,170	–	–	–	3,170
Pledged deposits					
– Not yet past due	79,427	–	–	–	79,427
Cash and cash equivalents					
– Not yet past due	208,773	–	–	–	208,773
	380,493	–	–	410,508	791,001

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2019

	12-month ECLs		Lifetime ECLs		Simplified approach	Total
	Stage 1	Stage 2	Stage 3			
	HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000
Trade receivables*	–	–	–		728,555	728,555
Financial assets included in prepayments, deposits and other receivables	–	–	–		–	3,373
– Normal**	119,943	–	–		–	119,943
– Doubtful**	–	–	–		–	–
Amounts due from associates						
– Not yet past due	7,080	–	–		–	7,080
Pledged deposits						
– Not yet past due	66,866	–	–		–	66,866
Cash and cash equivalents						
– Not yet past due	297,420	–	–		–	297,420
	491,309	–	–		728,555	1,219,864

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables 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”.

The credit risk for pledged deposits and cash and bank balances is considered minimal as such amounts are placed with banks with good credit standing. Further quantitative data in respect of the Group's exposure to credit risk from trade receivables are disclosed in note 21 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had concentrations of credit risk as 78% (2019: 83%) of the Group's trade receivables were due from the Group's five largest customers.

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31 December 2020

43. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Transferred financial assets that are derecognised in their entirety

In 2019, Coolpad Technologies Inc., a subsidiary of the Group, entered into an trade receivable factoring arrangement (the “Factoring Arrangement”) and transferred certain accounts receivable, with the carrying amount of USD40.0 million (the “Derecognised Trade Receivables”), to the bank. Under the Factoring Arrangement, the Group is not exposed to default risks of the trade receivable after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivable, including the sale, transfer or pledge of the trade receivable to any other third parties. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Trade Receivables. Accordingly, it has derecognised the full carrying amounts of the Derecognised Trade Receivables. The original carrying value of the trade receivable transferred under the arrangement that have not been settled as at 31 December 2020 was Nil (2019: USD2.5 million).

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 and bills 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 overdrafts, bank loans, lease liabilities and other interest-bearing loans.

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:

	2020		
	On demand and less than		
	1 year HK\$’000	1 to 5 years HK\$’000	Total HK\$’000
Trade payables	252,755	–	252,755
Financial liabilities included in other payables and accruals	1,103,567	–	1,103,567
Lease liabilities	3,963	3,828	7,791
Interest-bearing bank and other borrowings	558,779	–	558,779
An amount due to a joint venture	1,764	–	1,764
Amounts due to associates	43,578	–	43,578
Amounts due to related parties	167,225	–	167,225
	2,131,631	3,828	2,135,459

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31 December 2020

43. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

	2019		
	On demand and less than 1 year HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
	Trade payables	505,961	–
Financial liabilities included in other payables and accruals	1,262,312	–	1,262,312
Lease liabilities	10,715	8,329	19,044
Interest-bearing bank and other borrowings	274,297	–	274,297
Amounts due to associates	52,811	–	52,811
An amount due to a related party	–	291,966	291,966
	2,106,096	300,295	2,406,391

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios 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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. Financial Risk Management Objectives and Policies (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank and other borrowings, lease liabilities, trade payables, other payables and accruals, amounts due to associates, an amount due to a joint venture and amounts due to related parties, less cash and cash equivalents. Capital represents equity attributable to owners of the Company. The gearing ratios at the end of the reporting period were as follows:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Interest-bearing bank and other borrowings (<i>note 30</i>)	534,670	240,439
Lease liabilities (<i>note 16(b)</i>)	7,080	17,320
Trade payables	252,755	505,961
Other payables and accruals	1,500,899	1,402,490
An amount due to a joint venture	1,764	–
Amounts due to associates	43,578	52,811
Amounts due to related parties	167,225	269,432
Less: Cash and cash equivalents	(208,773)	(297,420)
Net debt	2,299,198	2,191,033
Equity attributable to owners of the Company	1,318,454	708,002
Capital and net debt	3,617,652	2,899,035
Gearing ratio	64%	76%

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31 December 2020

44. Comparative Amounts

The comparative consolidated statement of profit or loss and other comprehensive income has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 11).

45. Events after the Reporting Period

Save as disclosed in notes 30 and 32 to the financial statements in relation to the extension of other borrowings and issue of shares, respectively, the Company has the following event after the reporting period.

Cooperative development of the second and third phases of the urban renovation project of the Coolpad Information Harbor

On 12 January 2021, Yulong Shenzhen, a wholly-owned subsidiary of the Company, entered into a cooperation agreement with an independent property developer, namely Shenzhen Xinghuan Real Estate Development Co., Ltd. ("Xinghuan"), pursuant to which, Yulong Shenzhen and Xinghuan have conditionally agreed to jointly cooperate and develop the second and third phases of the urban renovation project of the Coolpad Information Harbor, whereby Yulong Shenzhen shall provide the lands owned by it and Xinghuan shall provide funds and expertise in relation to the construction, operation and sales (where appropriate). Further details of the aforesaid transaction are set out in the announcement of the Company dated 12 January 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

46. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	213,401	205,299
Financial assets at fair value through profit or loss	2,056	1,990
Total non-current assets	215,457	207,289
CURRENT ASSETS		
Amounts due from subsidiaries	1,818,377	1,569,180
Prepayments, deposits and other receivables	541	–
Cash and cash equivalents	10,373	95,242
Total current assets	1,829,291	1,664,422
CURRENT LIABILITIES		
Amounts due to subsidiaries	48,370	28,062
Other payables and accruals	14,302	9,855
Total current liabilities	62,672	37,917
NET CURRENT ASSETS	1,766,619	1,626,505
TOTAL ASSETS LESS CURRENT LIABILITIES	1,982,076	1,833,794
Net assets	1,982,076	1,833,794
EQUITY		
Issued capital	65,334	58,334
Reserves (<i>note</i>)	1,916,742	1,775,460
Total equity	1,982,076	1,833,794

NOTES TO FINANCIAL STATEMENTS

31 December 2020

46. Statement of Financial Position of the Company (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Share award reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2019	1,235,632	44,992	63,002	43,564	1,870	388	276,118	1,665,566
Issue of shares	163,964	-	-	-	-	-	-	163,964
Share issue expenses	(467)	-	-	-	-	-	-	(467)
Total comprehensive loss for the year	-	-	-	-	-	-	(57,619)	(57,619)
Equity-settled share option arrangements	-	-	4,016	-	-	-	-	4,016
At 31 December 2019 and 1 January 2020	1,399,129	44,992	67,018	43,564	1,870	388	218,499	1,775,460
Issue of shares	109,000	-	-	-	-	-	-	109,000
Share issue expenses	(283)	-	-	-	-	-	-	(283)
Total comprehensive income for the year	-	-	-	-	-	-	21,776	21,776
Equity-settled share option arrangements	-	-	10,789	-	-	-	-	10,789
At 31 December 2020	1,507,846	44,992	77,807	43,564	1,870	388	240,275	1,916,742

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors of the Company on 26 March 2021.