2017
Annual Report

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)

Corporate Profile

Coolpad Group Limited (the "Company"), formerly known as China Wireless Technologies Limited, 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") is an indirect wholly owned subsidiary of the Company. It was founded by Mr. GUO Deying (the Company's former chairman, former executive director and former chief executive officer) in April 1993. 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.

In spite of being a leading smartphone developer in Mainland China's telecommunications market, the Group has succeeded in breaking into the global telecommunications market in respect of Coolpad brand with the overseas telecommunications operators. 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.

Contents

Corporate Information

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head Office and Principal Place of Business in the PRC

Coolpad Information Harbor
NO.2 Mengxi Road
Hi-Tech Industry Park (Northern)
Nanshan District
Shenzhen

Principal Place of Business in Hong Kong

Room 1902, China Evergrande Centre
38 Gloucester Road
Wanchai, Hong Kong

Company Secretary

Mr. JIANG Chao, ACCA *(Resigned on 19 January 2018)*
Mr. LEUNG Siu Kee *(Appointed on 19 January 2018)*

Audit Committee & Remuneration Committee

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

Nomination Committee

Mr. JIA Yueting *(Chairperson appointed on 5 August 2016, resigned on 17 November 2017)*
Mr. CHAN King Chung *(Chairperson appointed on 17 November 2017)*
Mr. JIANG Chao *(Appointed on 17 November 2017)*
Mr. XIE Weixin

Authorised Representatives

Mr. JIANG Chao
Mr. LI Bin (Resigned on 1 March 2017)
Mr. LIU Hong *(Appointed on 1 March 2017)*
Mr. LIU Hong *(Resigned on 8 February 2018)*
Mr. LEUNG Siu Kee (Appointed on 8 February 2018)

Contact Information for Investor Relations

Tel: +86 755 3302 3607
Email: ir@yulong.com

Auditor

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

Legal Advisers to the Company as to Hong Kong Law

DLA Piper Hong Kong
17th Floor
Edinburgh Tower
The Landmark
15 Queen's Road
Central
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

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House,
24 Shedden Road, P.O. Box 1586,
Grand Cayman KY1-1110
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

Bank of Communications Co., Ltd.
DBS Bank (Hong Kong) Ltd.
Bank of China Limited
Hong Kong and Shanghai Banking (Hong Kong) Co., Ltd.

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)				
	2017	2016	2015	2014	2013
Revenue	**3,378,077**	7,969,477	14,667,866	24,900,471	19,623,652
(Loss)/profit before tax	**(2,702,251)**	(4,356,068)	2,311,011	606,629	437,373
Income tax expense	**(20,825)**	(45,352)	(34,505)	(92,551)	(89,121)
(Loss)/profit for the year	**(2,723,076)**	(4,401,420)	2,276,506	514,078	348,252

Financial Position

	As at 31 December (HK$'000)				
	2017	2016	2015	2014	2013
Non-current assets	**1,991,344**	2,741,032	5,745,328	1,625,586	1,251,002
Current assets	**2,859,486**	7,113,372	8,537,979	11,218,500	8,810,732
Non-current liabilities	**296,464**	67,213	225,116	1,704,409	57,904
Current liabilities	**3,764,950**	6,248,881	6,641,496	7,779,761	7,242,936
Net assets	**789,416**	3,538,310	7,416,695	3,359,916	2,760,894

Chief Executive Director's Statement

Jiang Chao

Vice Chairman, Executive Director and CEO

Dear Fellow Shareholders:

I am deeply honored to report the consolidated results for the year ended 31 December 2017 to the Shareholders of the Group. For the first time ever, trading in the shares of the Company on the Stock Exchange has been suspended for more than a full year with effect from 9 a.m. on 31 March 2017. The Group never stops making its efforts in working with third-party independent institutes and other appropriate steps to achieve the resumption of trading.

The Group saw a large decline in both shipments and revenue in the past year of 2017, due to the fierce competition of the smartphone market and the restructuring of its businesses, strategies and organization structure. For the year ended 31 December 2017, the Group had a turnover of approximately HK$3,378.08 million, which decreased by 57.61% from HK$7,969.47 million in 2016. The decrease was mainly due to the fact that the process of the business restructuring, the intensive competition of the smartphone business in China and the decrease in market share and sales volume for the current year. The net loss of the year 2017 was approximately HK$2,723.08 million, which decreased by 38.13% from the net loss of HK$4,401.42 million in the year 2016. Gross profit margin for the year 2017 was -9.43%, representing a decrease of 13.88% as compared with 4.45% for the year ended 31 December 2016. The decline in gross profit margin was primarily attributable to the decrease of shipments resulting from the intensive competition of the 4G smartphone market and the fact that the Group strengthened the stock management and accelerated the disposal of slow-moving inventories in the year of 2017. Both of the basic and diluted losses per share of the Group was HK53.14 cents for the year ended 31 December 2017.

Chief Executive Director's Statement

Development and sales of smartphones still remain as the main business of the Company for the year ended 31 December 2017. During the mentioned period, the Group recorded a significant decrease in the revenue from the sales of smartphones as compared to the corresponding period. The decrease in revenue was mainly attributable to the fierce competition arising from smartphones markets in China. Sales in China's regional and Southeast Asian markets continued to decline, as a result of which, the Company gave up part of its products that generate revenue but may cause losses so as to minimize losses.

Although the domestic revenue continued to decrease, nevertheless, the Group still keeps a solid cooperation relationship with local carriers and their sales and distribution channels. The revenue generated from carriers contributed the vast majority of revenue from the sales of smartphones in domestic market. As an important smartphone vendor in the domestic telecommunications carrier channel, the Group continued to release low-end customized models, such as "COOL" series, to support the 4G popularization plan of the carriers.

Whereas regional sales in the United States continue to maintain its growth momentum, but sales contribution and growth rate were limited for the year ended 31 December 2017. At the same time, the contribution of revenue from United States region continued to enlarge aggressively. The sales channel in United States became more diversified as compared to the corresponding year, despite of the fact that the major clients are concentrated in telecommunications carriers. Nevertheless, carriers accounted for about 89 percent of the whole market while open market accounted for the rest of 11 percent. Meanwhile, side by side with carrier field team, the Group developed strong relationship inside national retail channels and dealer channels progressively so as to build a healthy retailing networks in the retail open channel. The Group also attached great importance to branding, as a result of which, the Group had been in hundreds of events with local carrier partners to promote new product and brand.

The Group established an independent R&D centre focusing on products aiming at America market, as well as a dedicated local account team for each account. The Group is currently the third largest Chinese manufacturer in the United States and is taking opportunity to hit the first place. What inspiring is that the Group has occupied the fourth overall market share in both T-Mobile and metroPCS channels.

Chief Executive Director's Statement

The Group deeply realized the importance of R&D ability for the Company and recognized itself as a tech-driven company, The Group owned a high-ranking design team, deeply differentiated and optimized the functions and features of the Android operation system and continued to strengthen its R&D capability to bring users the best smartphone experience.

Besides, the Group not only kept researching and developing smart terminals of the present 4G technology, but also started working on the next 5G technology and its smart terminals. The Group stared development of 5G in 2013, and had been developing and testing several prototypes in different form for 5G commercial usage.

The Group would never let itself overwhelmed in AI trend as well, as a result of which, an AI science centre, consisting of scientists, researchers and engineers dedicated to bringing AI technologies into products, had been founded in the headquarter of Company in 2017. The AI team focused on the most up-to-date artificial technologies, such as facial recognition, scene classification, human-body posture recognition, and so on.

Currently, the smartphone remains as the main business of the Company. But, with the development of AI and 5G technology and output of research and development of the Company, the products with AI features would be more intelligent and user-friendly and the Group would enlarge the product portfolios to Internet of Things and Mobile Broadband area. The Group is confident that the Company would soon bring various products with premium design, decent quality, AI enabled and better user experience, which are worth waiting for.

With sophisticated management, consistent endeavor, innovative technologies and promising product layout, the Company is bound to overcome the hardship and navigate forward. As taking heavy burden and embarking on a new journey, we shall strive to march on with solidarity and diligence.

Appreciations

I would like to express my sincere gratitude to the Group management and staff with 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.

Jiang Chao
Vice Chairman, Executive Director & Chief Executive Officer

Hong Kong, 4 December 2018

Today's Innovation

SUCCESS IN THE FUTURE

Total Revenue HK$3,378.08 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 HK$ million		
	2017	2016	Variance (%)
Revenue			
Sale of mobile phones and related accessories	**3,263.89**	7,661.74	-57.40
Wireless application service income	**86.10**	202.34	-57.45
Finance service income	**28.09**	105.40	-73.35
Total revenue	**3,378.08**	7,969.48	-57.61
Cost of sales	**(3,696.48)**	(7,614.99)	-51.46
Gross (loss)/profit	**(318.40)**	354.49	-189.82
Other income and gains	**367.44**	449.89	-18.33
(Loss)/gain on the loss of control of subsidiaries	**(0.53)**	154.09	-100.34
Loss on disposal of an investment in a joint venture	**–**	(1,837.11)	
Impairment of investments in associates	**(453.70)**	(793.45)	-42.82
Selling and distribution expenses	**(667.86)**	(1,009.96)	-33.87
Administrative expenses	**(709.26)**	(954.99)	-25.73
Other expenses	**(752.78)**	(324.18)	132.21
Finance costs	**(26.25)**	(84.00)	-68.75
Share of losses of:			
Joint ventures	**(3.77)**	(138.97)	-97.29
Associates	**(137.14)**	(171.88)	-20.21
Loss before tax	**(2,702.25)**	(4,356.07)	-37.97
Income tax expense	**(20.83)**	(45.35)	-54.07
Loss for the year	**(2,723.08)**	(4,401.42)	-38.13

Management Discussion & 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			
	2017		2016	
	Revenue HK$ Million	**% of revenue**	Revenue HK$ Million	% of revenue
Revenue				
Sale of mobile phones and related accessories	**3,263.89**	**96.62**	7,661.74	96.14
Wireless Application Service income	**86.10**	**2.55**	202.34	2.54
Finance Service	**28.09**	**0.83**	105.40	1.32
Total	**3,378.08**	**100**	7,969.48	100

The Group recorded consolidated revenue for the year ended 31 December 2017 of HK$3,378.08 million, representing a decrease of 57.61% as compared with HK$7,969.48 million for the year ended 31 December 2016. The decrease of the consolidated revenue in 2017 was mainly due to the fact that the process of the business restructuring, the intensive competition of the smartphone business in China and the decrease in market share and sales volume in China region for the current year.

Gross Profit

	Year ended 31 December			
	2017		2016	
Gross (loss)/ profit	**Gross profit HK$ Million**	**Gross profit margin (%)**	Gross profit HK$ Million	Gross profit margin (%)
Total	**(318.40)**	**-9.43**	354.49	4.45

The Group's overall gross loss for the year ended 31 December 2017 was HK$318.4 million, representing a decrease of 189.82% as compared with HK$354.49 million gross profit for the year ended 31 December 2016. The Group's overall gross profit margin for the year ended 31 December 2017 decreased to -9.43%, representing a decrease of 13.88% as compared with 4.45% for the year ended 31 December 2016. The decline in gross profit margin was primarily attributable to the decrease of shipments resulting from the intensive competition of the 4G smartphone market and the Group strengthened the stock management and accelerated the disposal of slow-moving inventories in the year of 2017.

Other Income and Gains

Other income and gains of the Group amounted to approximately HK$367.44 million for the year ended 31 December 2017, representing a decrease of 18.33% as compared with HK$449.89 million for the year ended 31 December 2016. This decrease was attributable to the decrease of government grant and subsidies received by the Group and the decrease of bank interest income in 2017.

Management Discussion & Analysis

Selling and Distribution Expenses

	Year ended 31 December	
	2017	2016
Selling and distribution expenses (HK$ million)	**667.86**	1,009.96
Selling and distribution expenses/Revenue (%)	**19.77**	12.67

Selling and distribution expenses of the Group for the year ended 31 December 2017 decreased to HK$667.86 million, representing an decrease of approximately HK$342.1 million, or 33.87%, as compared with HK$1,009.96 million for the year ended 31 December 2016. The decrease in selling and distribution expenses was primarily attributable to the fact that the Group gave up some products that may cause losses and decrease these products marketing activities. As a percentage of total revenue, selling and distribution expenses increased to 19.77% in 2017 from 12.67% in 2016. The net increase of 7.1% as a percentage of total revenue was because of the decline of sales volume and more expenditure on marketing, advertising and promotion activities to improve the brand image in the overseas market during the year.

Administrative Expense

	Year ended 31 December	
	2017	2016
Administrative expenses (HK$ million)	**709.26**	954.99
Administrative expenses/Revenue (%)	**21.00**	11.98

Administrative expenses decreased by 25.73% from HK$954.99 million for the year ended 31 December 2016 to HK$709.26 million for the year ended 31 December 2017. As a percentage of total revenue, administrative expenses increased to 21.00% in 2017 from 11.98% in 2016. The net increase of 9.02% as a percentage of total revenue was because of the decrease of overall revenue and the increase of the R&D costs during the year.

Income Tax Expense

For the year ended 31 December 2017, the Group's income tax expense amounted to HK$20.83 million (2016: HK$45.35 million). The decrease in the income tax expense was mainly attributable the fact that the Group derecognised certain deferred tax asset balances which were not expected be recovered in 2016. In 2017, there were no such items.

Net Loss

For the year ended 31 December 2017, the Group recorded a net loss of HK$2,723.08 million, representing a decline of HK$1,678.34 million, or 38.13%, as compared with the net loss of HK$4,401.42 million for the year ended 31 December 2016. The net loss for 2017 included the impairment for investments in associates amounting to HK$453.70 million and other expenses amounting to HK$752.78 million, respectively. Besides, the decrease of the sales and decrease of the gross profit margin of the products also led to the decrease of the net loss.

Management Discussion & Analysis

Liquidity and Financial Resource

For the year ended 31 December 2017, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 80% as at 31 December 2017 (2016: 58%). 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 2017 amounted to HK$451.13 million, while it was HK$1,308.08 million as at 31 December 2016.

Contingent Liabilities

(a) Litigation with the 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 USD25,000,000 (equivalent to HK$199,405,000). As of the reporting date, the aforesaid lawsuit was still in the progress.

(b) Litigations with the suppliers

The Group received several civil complaints in 2017 from the suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB171 million (equivalent to HK$205 million). The arbitration procedures of the civil complaints were still in progress as at the date of approval of the annual report.

Pledge of Assets

As at 31 December 2017, the following assets of the Group were pledged for certain bank borrowings: (i) certain properties and plants of the Group located in Mainland China, the total book value of which were approximately HK$155.58 million (2016: HK$200.79 million); as at 31 December 2017, the Group's time deposits of approximately (i) HK$46.39 million were used to secure bank loans (2016: nil), and (ii) HK$69.38 million were used as a security for the banks to provide performance guarantees (2016: HK$23.05 million).

Business Review and Outlook

For the first time ever, trading in the shares of the Company on the Stock Exchange has been suspended for more than a full year with effect from 9 a.m. on 31 March 2017. The Group never stop making its efforts in working with third-party independent institutes and other appropriate steps to achieve the resumption of trading. Beyond that, the Group also implemented various steps to enhance its R&D ability and diversify its product portfolio to catch up with AI trend.

Management Discussion & Analysis

The Group saw a large decline in both shipments and revenue in the past year of 2017, due to the fierce competition of the smartphone market and the restructuring of its businesses, strategies and organization structure. For the year ended 31 December 2017, the Group had a turnover of approximately HK$3,378.08 million, which decreased by 57.61% from HK$7,969.48 million in 2016. The decrease was mainly due to the fact that the process of the business restructuring, the intensive competition of the smartphone business in China and the decrease in market share and sales volume for the current year. The net loss of the year 2017 was approximately HK$2,723.08 million, which decreased 38.13% from the net loss of HK$4,401.42 million in the year 2016. Gross profit margin for the year 2017 was -9.43%, representing a decrease of 13.88% as compared with 4.45% for the year ended 31 December 2016. The decline in gross profit margin was primarily attributable to the decrease of shipments resulting from the intensive competition of the 4G smartphone market and the Group strengthened the stock management and accelerated the disposal of slow-moving inventories in the year of 2017. Both of the basic and diluted losses per share of the Group was HK53.14 cents for the year ended 31 December 2017.

Development and sales of smartphones still remain as the main business of the Company for the year ended 31 December 2017. During the mentioned period, the Group recorded a significant decrease in the revenue from the sales of smartphones as compared to the corresponding period. The decrease in revenue was mainly attributable to the fierce competition arising from smartphones markets in China. Sales in China's regional and Southeast Asian markets continued to decline, as a result of which, the Company gave up part of its products that generate revenue but may cause losses so as to minimize losses.

Although the domestic revenue continued to decrease, nevertheless, the Group still keep a solid cooperation relationship with local carriers and their sales and distribution channels. The revenue generated from carriers contributed the vast majority of revenue from the sales of smartphones in domestic market. As an important smartphone vendor in the domestic telecommunications carrier channel, the Group continued to release low-end customized models, such as "COOL" series, to support the 4G popularization plan of the carriers.

Whereas regional sales in the United States continued to maintain its growth momentum, but sales contribution and growth rate were limited for the year ended 31 December 2017. At the same time, the contribution of revenue from United States region continued to enlarge aggressively. The sales channel in United States became more diversified as compared to the corresponding year, despite of the fact that the major clients are concentrated in telecommunications carriers. Nevertheless, carriers accounted for about 89 percent of the whole market while open market accounted for the rest of 11 percent. Meanwhile, side by side with carrier field team, the Group developed strong relationship inside national retail channels and dealer channels progressively so as to build a healthy retailing networks in the retail open channel. The Group also attached great importance to branding, as a result of which, the Group had been in hundreds of events with local carrier partners to promote new product and brand.

The Group established an independent R&D center focusing on products aiming at America market, as well as a dedicated local account team for each account. The Group is currently the third largest Chinese manufacturer in the United States and taking opportunity to hit the first place. What inspiring is that the Group has occupied the fourth overall market share in both T-Mobile and metroPCS channels.

Management Discussion & Analysis

The Group deeply realized the importance of R&D ability for the Company and recognized itself as a tech-driven company, The Group owned a high-ranking design team, deeply differentiated and optimized the functions and features of the Android operation system and continued to strengthen its R&D capability to bring users the best smartphone experience.

Besides, the Group not only kept researching and developing smart terminals of the present 4G technology, but also started working on the next 5G technology and its smart terminals. The Group stared development of 5G in 2013, and had been developing and testing several prototypes in different form for 5G commercial usage.

The Group would never let itself overwhelmed in AI trend as well, as a result of which, an AI science center, consisting of scientists, researchers and engineers dedicated to bringing AI technologies into products, had been founded in the headquarter of Company in 2017. The AI team focused on the most up-to-date artificial technologies, such as facial recognition, scene classification, human-body posture recognition, and so on.

Currently, the smartphone remains as the main business of the Company. But, with the development of AI and 5G technology and output of research and development of the Company, the products with AI features would be more intelligent and user-friendly and the Group would enlarge the product portfolios to Internet of Things and Mobile Broadband area. The Group is confident that the Company would soon bring various products with premium design, decent quality, AI enabled and better user experience, which are worth waiting for.

With sophisticated management, consistent endeavor, innovative technologies and promising product layout, the Company is bound to overcome the hardship and navigate forward. As taking heavy burden and embarking on a new journey, we shall strive to march on with solidarity and diligence.

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 applied the principles of the Code Provisions under the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2017, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

The Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial year ended 31 December 2017; and (ii) publishing the annual report for the year ended 31 December 2017. Such delay has constituted non-compliance with Rules 13.46(2)(a) and 13.49 of the Listing Rules.

The Company failed to hold its annual general meeting for the year ended 31 December 2017 within the times stipulated under the Listing Rules and the articles of association of the Company (the "Articles"). An annual general meeting will be convened on 11 January 2019 in which the Board will cause the audited consolidated financial statements of the Group for the year ended 31 December 2017 to be laid before the Shareholders for their consideration. Circular and the notice for the annual general meeting will be dispatched as soon as reasonably practicable.

Board of Directors

It is the duty of the Board to create value to the shareholders of the Company, 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 its shareholders at all times.

The Board and management of the Company ("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 management of the Company 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 eight Directors, four of whom are executive Directors, one is non-executive Director and three are independent non-executive Directors ("INEDs"). The composition of the Board is set out as follows:

Executive Directors

Mr. JIANG Chao *(Vice Chairman of the Board and CEO)*
Mr. LI Bin (resigned on 01 March 2017)
Mr. ZHANG Wei (appointed on 20 March 2017, resigned on 05 January 2018)
Mr. JIA Yueting (resigned on 17 November 2017)
Mr. Leung Siu Kee (appointed on 19 January 2018)
Mr. Lam Ting Fung Freeman (appointed on 19 January 2018)
Mr. Liang Rui (appointed on 19 January 2018)

Non-Executive Directors

Mr. Abulikemu Abulimiti (re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)
Mr. LIU Jiangfeng (re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)
Mr. MA Lin (appointed on 17 November 2017, resigned on 05 January 2018)
Mr. WANG Junmin (appointed on 17 November 2017, resigned on 05 January 2018)
Mr. YANG Yongqiang (appointed on 17 November 2017, resigned on 05 January 2018)
Mr. Ng Wai Hung (appointed on 19 January 2018)
Mr. Liu Hong (re-designated from executive Director on 19 January 2018, resigned on 03 April 2018)

Independent Non-Executive Directors

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

The biography of the Directors are set out in the "Directors and Senior Management" on pages 35 to 40 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

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

As at the end of the year of 2017, roles of the chairman and chief executive officer were separate and exercised by different individuals. Mr. JIANG Chao was appointed as chief executive officer on 31 August 2017. Mr. LIU Hong was appointed as chairman of the Board on 17 November 2017. Mr. JIA Yueting and Mr. LIU Hong acted as chairmen of the Board during the period 1 January 2017 to 17 November 2017 and 17 November 2017 to 31 December 2017, respectively. Mr. LIU Jiangfeng and Mr. JIANG Chao acted as chief executive officer during the period 1 January 2017 to 31 August 2017 and 31 August 2017 to 31 December 2017, respectively. The Board considered that this structure will not impair the balance of power and authority between the Board and the Management, and in view of the scale of operations of the Group, the Board believed that this structure enables the Group to make and implement decision promptly and efficiently.

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, all 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 its 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, all 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 ended 31 December 2017, the Board held four meetings. No Annual General Meeting ("AGM") and Extraordinary General Meeting ("EGM") was held during the year ended 31 December 2017.

Attendance of individual Directors at the Board meetings in 2017 is as follows:

Name of Directors	Board Meetings	AGM	EGM
Executive Directors			
Mr. JIANG Chao	4/4	N	N
Mr. LI Bin (resigned on 01 March 2017)	0/4	N	N
Mr. JIA Yueting (resigned on 17 November 2017)	4/4	N	N
Mr. ZHANG Wei (appointed on 20 March 2017, resigned on 05 January 2018)	4/4	N	N
Mr. Leung Siu Kee (appointed on 19 January 2018)	N	N	N
Mr. Lam Ting Fung Freeman (appointed on 19 January 2018)	N	N	N
Mr. Liang Rui (appointed on 19 January 2018)	N	N	N
Non-executive Directors			
Mr. Liu Jiangfeng (re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)	4/4	N	N
Mr. Abulikemu Abulimiti (re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)	4/4	N	N
Mr. MA Lin (appointed on 17 November 2017, resigned on 05 January 2018)	0/4	N	N
Mr. WANG Junmin (appointed on 17 November 2017, resigned on 05 January 2018)	0/4	N	N
Mr. YANG Yongqiang (appointed on 17 November 2017, resigned on 05 January 2018)	0/4	N	N
Mr. Ng Wai Hung (appointed on 19 January 2018)	N	N	N
Mr. LIU Hong (re-designated from executive Director on 19 January 2018, resigned on 03 April 2018)	4/4	N	N
Independent Non-executive Directors			
Mr. CHAN King Chung	4/4	1/1	0/1
Dr. HUANG Dazhan	4/4	0/1	0/1
Mr. XIE Weixin	4/4	0/1	0/1

Corporate Governance Report

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.

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 two meetings in 2017 which were attended by all the members of the Remuneration Committee, to review the remuneration packages of Directors and senior management of the Group and share option scheme. The attendance record of each member of the Remuneration Committee is set out below:

Name	**Number of meetings attended**
Mr. CHAN King Chung *(Chairman)*	2/2
Dr. HUANG Dazhan	2/2
Mr. XIE Weixin	2/2

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

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year 2017 is set out below:

Remuneration bands (HK$)	**Number of persons**
1 to 1,000,000	12
1,000,001 to 2,000,000	1
2,000,001 to 3,000,000	1
3,000,001 to 4,000,000	–
4,000,001 to 5,000,000	–
Total	14

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.

In 2017, 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 *(Chairman)*	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 independent non-executive Directors.

The Nomination Committee comprises one executive Director and two independent non-executive Directors, namely Mr. CHAN King Chung (the Chairman of the Committee, appointed on 17 November 2017), Mr. JIA Yueting (the Chairman of the Committee, appointed on 05 August 2016 and resigned on 17 November 2017), Mr. JIANG Chao (appointed on 31 August 2017), 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 three meeting during the year ended 31 December 2017. The attendance record of the Nomination Committee meeting is set out below:

Name	Number of meetings attended
Mr. CHAN King Chung *(Chairman, appointed on 17 November 2017)*	3/3
Mr. JIA Yueting *(Chairman, appointed on 05 August 2016 and resigned on 17 November 2017)*	2/3
Mr. XIE Weixin	3/3
Mr. JIANG Chao *(appointed on 17 November 2017)*	1/3

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 ended 31 December 2017 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. JIANG Chao	√
Mr. JIA Yueting (resigned on 17 November 2017)	√
Mr. LI Bin (resigned on 01 March 2017)	√
Mr. ZHANG Wei (appointed on 20 March 2017, resigned on 05 January 2018)	√
Mr. LIU Hong (re-designated from executive Director to non-executive Director on 19 January 2018, resigned on 03 April 2018)	√
Non-executive Directors	
Mr. LIU Jiangfeng (re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)	√
Mr. Abulikemu Abulimiti (re--designated from executive Director on 31 August 2017, resigned on 17 November 2017)	√
Mr. MA Lin (appointed on 17 November 2017, resigned on 05 January 2018)	√
Mr. WANG Junmin (appointed on 17 November 2017, resigned on 05 January 2018)	√
Mr. YANG Yongqiang (appointed on 17 November 2017, resigned on 05 January 2018)	√
Independent Non-executive Directors	
Mr. CHAN King Chung	√
Dr. HUANG Dazhan	√
Mr. XIE Weixin	√

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.

Corporate Accountability and Internal Control

The Board is responsible for the Group's internal control system and has the responsibility for reviewing its effectiveness. Such system is designed to manage rather than eliminate the risk 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 CG 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.

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. 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 ended 31 December 2017. 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.

Baker Tilly Hong Kong Risk Assurance Limited, an external professional adviser, was engaged by the Company in March 2018 to conduct an independent internal control review and to assist the management to improve the internal control systems 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.

Corporate Governance Report

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 5 primary risks including strategic risk, financial risk, market risk, operational risk and legal risk and 70 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.

Corporate Governance Report

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 ended 31 December 2017. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017 are set out in the Report of the Directors on page 55 of the Annual 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. JIANG Chao was appointed as the Company Secretary of the Company in 2017 and he have complied with the training requirement of the Listing Rules during the year.

External Auditors

The Group has not changed external auditors in the past three years. Ernst & Young has been appointed as the External Auditors of the Group for the year under review. An amount of approximately HK$3.88 million was charged by Ernst & Young for its audit services provided to the Group in 2017 (2016: HK$5.68 million). The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditor's Report" on page 62 of this report.

During the year, HK$0.85 million (2016: HK$0.67 million) was incurred as remuneration to Ernst & Young for the provision of non-audit services to the Group which represented tax advisory services.

Corporate Governance Report

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 of the Company 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.

Environmental, Social and Governance Report

About This Report

We are pleased to present this Environmental, Social and Governance ("ESG") Report, which provides an overview of the ESG performance of Coolpad Group Limited (the "Company" or "Coolpad") together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2017.

This report is prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guidelines issued by The Stock Exchange of Hong Kong Limited.

Our Philosophy in ESG

The Group has strong belief in the need of prioritising environmental and social responsibilities. Besides fulfilling our business objectives, we are committed to operating in an accountable and sustainable way by integrating ESG considerations in our day-to-day operations. The Group has always regarded corporate social responsibility as an essential part of the Group's activities, and attached great importance to the benefits and relationships that its corporate social responsibility actions generate among its customers, employees, local communities, shareholders, business partners and supervisory authorities. We are fully aware that strengthening social responsibility is not only crucial for Coolpad's future development, but is also a compelling obligation as a part of Coolpad's participation in civil society.

For the past years, we have been concerning ourselves with environmental protection and committed ourselves to achieving an ecological balance as part of our efforts towards creating a green enterprise. We have also been maintaining integrity in our operations in providing safe, quality products to customers, which has earned us social credibility and made us a company to be relied on. We have been attaching great importance to the talent of our employees, and aimed at creating an environment that offers a win-win development outcome for both employees and the enterprise. Our concern for employees' working conditions and career development has driven us to create a welcoming, harmonious and mutually beneficial corporate culture for employees, in which we share with them the success brought by the company's growth and thus integrate individual, corporate and social values. We have also been expanding our involvement in public welfare activities, actively participating in a range of social undertakings such as education and social welfare activities, serving the community with sincerity and bringing new hope to those in need. Coolpad has been striving to establish itself as a responsible and reliable company that customers, employees, shareholders and society can trust, and one that is committed to sustainable development.

In 2017, as usual, the Group enhanced its social corporate responsibility activities and further integrated the concept of social corporate responsibility into its daily operations. We strived to maintain and enhance the Group's leading position in the development of wireless telecommunications technological, high quality products and services to its customers, while also delivering mutual benefits for customers, employees and the society.

Environmental, Social and Governance Report

Environment

Environmental Protection

In the present social environment which advocates resource-saving, the Group is obliged to take the social responsibilities to develop green economy and promote sustainable development. With the improvement of people's awareness of environmental protection, more national and industry laws and regulations were introduced to regulate and deal with environmental problems in various countries. For many years, the Group has made environmental protection one of its top corporate governance priorities.

The Group attaches great importance to green development, strictly enforces laws and regulations related to environmental protection, adheres to the principle of making the Company's profit grow while concerning energy and protecting the environment. The Group strictly complies with environmental protection laws and regulations such as "Environmental Protection Law of the People's Republic of China" (中華人民共和國環境保護法), "Law of the People's Republic of China on Conserving Energy" (中華人民共和國節約能源法), "Atmospheric Pollution Prevention and Control Law of the People's Republic of China" (中華人民共和國大氣污染防治法).

The Company implements a series of mechanisms and measures relating to environmental management and energy conservation in its daily operations aimed at protecting the environment and conserving energy, with a view to promoting harmonious balance and sustainable development in terms of economic, social and ecological benefits.

In 2017, the Company continued to increase its energy conservation and emission reduction efforts, actively enhance its green competitiveness, take the initiative to improve the corporate environmental protection system, and regard environmental protection as an integral part of corporate operation. Meanwhile, the Company continued to maintain an effective environmental management mechanism, which has passed the third-party certification of ISO14001:2015 environmental management system.

The Company has dedicated staff mainly responsible for tracking and analyzing the domestic and international environmental protection trends, studying and formulating environmental protection-related policies and measures, supervising and guiding employees at all levels to effectively implement the environmental protection-related programs, to deal with any shortcomings in its environmental protection work and to take remedial actions.

In 2017, the Company did not experience any safety accidents or pollution incidents which would have an impact on the environment, and was not imposed with any penalties or fines resulting therefrom.

Water Resource Management

The water consumption of the Company in 2017 is set forth below:

Unit for water consumption	Water consumption (unit: tonne)
Water consumption for domestic use	85,379
Water consumption for office use	164,477
Total	249,856

Environmental, Social and Governance Report

In respect of the use of water resources, the Group strictly complies with the relevant laws and regulations in the PRC, and plans the Group's water usage accordingly. There is no water resource consumption problem during the report period. The water consumption for the Group and its subsidiaries mainly consists mainly of office water and domestic water. In respect of water conservation, the main measures of the Group are raising our staff's awareness towards water conservation through training and publicity, posting "water conservation" signs around domestic water source in office area so as to remind our staff to save water.

The Company mainly uses water from the urban water supply system for its operation, which would have less impact on water bodies such as rivers (including groundwater), lakes and oceans. The Company has formulated relevant regulations to bring water consumption for production and office use into its daily management agenda, increased its employees' awareness of cherishing water resources and the proper use of water through publicity activities and trainings, and realised fresh water conservation by adopting management and technical methods.

Energy Management

The Company mainly engages in the design, production and sales of smartphones, and its main power source is the urban electricity network. In order to improve its energy performance, including efficiency of energy utilization and reduction of energy consumption, reduce its energy costs through systematic energy management and mitigate the impact of greenhouse gas emissions and other environmental factor, the Company has established an energy management system to strengthen the control over energy management, continuously improved its energy performance, and substantially shifted its focus from energy efficiency of individual equipment and individual system unit to overall energy efficiency of the entire company through energy management, structural energy conservation and the application of energy conservation technology.

The energy consumption of the Company in 2017 is set forth below:

Unit for electricity consumption	Electricity consumption (unit: kilowatt)
Electricity consumption for research and development purpose	1,030,345
Electricity consumption for production purpose	9,536,655
Electricity consumption for office use	930,670
Others	4,120,333
Total	15,618,003

The Company extensively applies lean management techniques in carrying out its energy saving activities. With steadfast implementation of process management over energy consumption and in-time statistical analysis of energy consumption of all divisions of the Company, the Company is able to instruct its units to improve energy conservation and emission reduction. Besides, the Company has explicitly specified the responsible person for energy consumption, and has formulated a number of relatively comprehensive management measures. Through statistical analysis of the Company's energy consumption in the process of product research and development and manufacturing, the Company is also able to set its energy consumption target value in a scientific and reasonable way. In 2017, the electricity consumption of the Company decreased by 5.1% compared to the same period of 2016.

Environmental, Social and Governance Report

In addition, the Group encourages employees to use public transport for business trips, so as to reduce vehicle fuel consumption. A Group-wide lights-off campaign has been launched to integrate environmental awareness into the everyday work life of employees. The Group has also formulated internal operational guidelines containing detailed requirements regarding water and electricity consumption and the operating hours and temperature setting of air-conditioners.

Pollutant Emissions And Wastes

In the process of production management, the Company is always in strict compliance with the relevant PRC laws and regulations, and requires all units of the Company to take the responsibility of protecting the environment and reducing pollution, conscientiously carry out relevant initiatives in accordance with the requirements of the regulations and the Company's articles of association, and make every effort in reducing the amount of wastewater, solid waste and sewage produced. For the efficient implementation of various measures, the Company has established a stringent and comprehensive management system to regulate the operation of management activities such as solid waste and sewage discharge. By selecting recycling agencies with relevant qualification, the management of the discharge of harmful solid waste and sewage has been strengthened, and the operation process has been effectively controlled.

Property management service contracts were signed between business firms and property management units to specify the scope of management services and responsibilities, pursuant to which the property management units shall perform daily inspection on and responsible for the maintenance of drinking water facilities, valves and pipelines within the office buildings, and repair and replace any old valves, sensors and taps with potential operational problems to avoid wastage of fresh water due to malfunction of facilities; save water while cleaning the water tankers of the office buildings and watering trees and flowers; regulate the use of central air conditioning and reduce the consumption of cooling water; enhance employees' awareness of water conservation through publicity activities and various measures; strengthen the inspection of water consumption, and compare and analyze the monthly consumption of fresh water to avoid wastage of water resources. Office buildings are supplied by municipal water supply systems, and wastewater is discharged to the public sewerage system. Wastewater from factories will be discharged to the specialized industrial wastewater sewerage system if discharge standard is met after inspection.

All kinds of wastes generated by offices and production plants were classified and recycled according to the urban waste classification program, and relevant contracts were signed with qualified environmental hygiene management centers and hazardous waste trading centers. In 2017, the Company did not experience any serious leakage and pollution accidents, and was not imposed with any economic or non-economic penalties.

We advocate treatment of hazardous and nonhazardous wastes generated in the course of operation scientifically and effectively to minimize adverse impacts that our production and operation may have on the environment. The Group acts stringently up to the Directory of National Hazardous Wastes as wastes generated in the course of production would be checked against the Directory while those listed therein would be picked out and collected in designated locations in accordance with relevant laws and regulations of the State, and be properly disposed of by category in stipulated timeframes. We try our best to streamline the production process, improve the conversion rate of materials, reduce or replace the use of hazardous or harmful substances, and maximize integrated use of wastes generated in the course of production. Meantime, we continue to study and use more environmental friendly EP new materials and new crafts, use clean energy, advanced technology and equipment, improve monitoring over production and implement clean production assessment. Other than the proper treatment of wastes in the course of production, we pay special attention to the effective treatment of wastes in the canteen. Food leftovers from the canteen are collected twice per day by dedicated workers. Wasted cooking oils from the canteen are collected by a State-assigned contractor under the title of "stringent controller over wastes" for centralized treatment by the government.

Environmental, Social and Governance Report

Employee Care

The employees of the Group are the driving force in maintaining its market position and achieving satisfactory performance results. We consistently believe that employees are the most valuable asset and considered as a force to our sustainable corporate development. We actively create favorable conditions for our staff's career development and physical and mental health. All employees of the Group work 8 hours a day, 40 hours a week, and enjoy national legal holidays.

Human Resources Overview

As at 31 December 2017, the Group had a total of 1,421 employees (2016: 4,504) shown as follows:

	As at 31 December 2017
Total number of staffs	**1,421**
a.) Total number of staffs (by gender)	
Female	502
Male	919
b.) Total number of staffs (by age)	
<30	732
>=30	689

Employees' Recruitment

Upholding to the principle of "fairness, justness and openness", in accordance with the requirements of Labour Law, Labour Contract Law and other relevant laws and regulations, the Group gives full consideration to its business development needs and employee structure in selecting and recruiting employees in accordance with the Group's recruitment and employment policies. Stringent interview procedures for assessment and approval during recruitment have been adopted to avoid any forms of discrimination.

Child labour and forced labour are strictly prohibited. We strictly prohibit the recruitment of child labour and forced labour in strict compliance with Labour Law of People's Republic of China (中華人民共和國勞動法) and Prohibition of Child Labour Provisions (禁止使用童工規定). We verify the identity of employees at the signing of labour contracts with employees, which in turn prevent the use of child labour.

The Group places great emphasis on upholding the basic rights of its employees. It respects diversity in its employees and adheres to the principle of equal opportunities in employment, recruiting and cultivating talents regardless of race, religion, ethnicity, nationality, gender or age. The Group also continually revises its mechanism and structure in different aspects in order to adapt to the development of the enterprise and, at the same time, to benefit the employees' development.

During the year, we were not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to employment and labour practices and occupational health and safety. Nor did we identify any incidents that have a significant impact on the Group relating to the use of child or forced labour.

Environmental, Social and Governance Report

Training and Development

Employee development drives the progress of a company. While developing its business and safeguarding the basic rights of its employees, the Group also provides a platform for employees to develop their careers, which includes offering a comprehensive learning and training system that helps them develop quickly and strengthens their sense of belonging. The Group formulates suitable training courses according to the needs of its different departments and businesses. It also implements an internal recruitment system, in which employees can choose their career path based on their interests and strengths.

To meet different career pursuit, the Group has made a duel career development channel (professional channel & management channel), providing enormous space for career rise and on longer constraint from traditional career development model. At the same time, it has really cultivated and selected a batch of qualified personnel to enter the management channel, so that different types of employees can achieve good career development.

Every year, the Group provides new recruits with comprehensive induction training. The training provides an overview of the Group's business, delivers information about business partners, products knowledge, corporate culture and core values, and introduces business-related policies and laws to help new recruits integrate into the Coolpad family.

Remuneration

The remuneration packages of the employees include salaries, bonuses and allowances. Our employees also receive supplementary medical benefits, transportation allowances, meal allowances and other benefits. The Group carries out employee performance appraisals and establishes diversified and dynamic appraisal mechanisms. Pursuant to applicable PRC regulations, the Group has contributed to social insurance funds, including pension plans, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, and housing funds for all of its employees. In 2017, there was no social security underpaid.

The Group implements scientific remuneration management and various other incentives, and regularly reviews its remuneration packages and promotion opportunities for different positions to guarantee their market competitiveness. To attract talents, the Group also offers various welfare incentives to its employees, including pension plans, MPF plans, insurance schemes, and housing and meal allowances.

Incentives and Promotion

According to the business development requirements, the Group, by setting the operational strategies and annual operational goals as its guidance, market demands as its direction, economic effectiveness as its focus as well as technology research and development as its support, established and improved the entire staff performance evaluation system. In order to inspire the potential and work enthusiasm of its employees, the Group objectively evaluates and assesses work performance of its employees by setting performance targets, and realizing awards according to the points that is formed by the quantified evaluation results.

Concurrently, these evaluation results are the references for the employees' career progression. Upholding the principle of "matching right people to the right posts", the Group creates a sound career development channel for both management and technicians by implementing comprehensive promotion mechanisms and providing favourable opportunities for promotion to our employees.

Environmental, Social and Governance Report

Solicitude Activities for the Staff

The Group is deeply committed to its employees' well-being and organises regular health check-ups for them, as well as providing various medical insurance schemes. The Group implements its administration and management with the primary concept of "people-oriented and staff first". The devotion and loyalty of the staff determine the scope of corporate development. We raise staffs' sense of well-being in unceasing bits of care, by providing them with perfect benefits, communication systems and diversified staff activities, so that they can enjoy working without worries and lead a blissful and happy life.

In addition, the Group actively launches and implements work that is favourable for building a harmonious relationship between the enterprise and the labour as well as facilitating the enterprise's sound development, so as to care for employees and strengthen their solidarity and their sense of belonging to the Group. In order to listen better to the staff and ensure a smooth exchange of information, The Group has established manifold communication channels and a complete communication mechanism to collect opinions from the staff, identify corporate deficiencies and grow with them.

During the year under review, the labour unions at different levels organised various activities, such as employee birthday parties, group travels, thematic exhibitions visits, employee walking and mountaineering. These activities enhanced employees' physical and psychological well-being and strengthened their sense of belonging and overall team spirit.

Health and Safety

The Group places great emphasis on maintaining workplace health and safety. In order to protect health and safety of employees, the Group has built and implement occupational health and safety management system according to OHSAS18001. The Group keep perfecting the safety management system and operational procedures, strengthening the employee's safety training and education, and conducting regular safety monitoring on safety production, fire control, engineering safety and other key point to prevent the happening of accidents. The Group provides employees with workplace, environment and conditions in line with national occupational health standards and hygiene requirements, and regularly arranges medical institutions for free health check-ups for all employees. In 2017, the physical health checks rate and health record coverage rate were 100%.

The Company attaches great importance to safety and occupational health, strictly comply with PRC laws and regulations regarding production safety, e.g. the Production Safety Law of the People's Republic of China, and adheres to the principle of "Safety First, Prevention Foremost", putting safety and harmonious development in the first place, and uphold the commitment of "Ensure Safety while Boosting Production, Growth and Development". In order to strengthen and enhance the management of safety production, the Company's subordinate companies have established a quality management system and standardized safety production standards, and engaged internal and external third parties to review the effectiveness of the comprehensive quality management system and safety production standardization on a regular basis. Inspection and evaluation on the establishment of safety management institutions, safety team building, potential safety risks investigation and control, safety production risk identification and control, emergency plan formulation and implementation, safety-related activities, transportation of hazardous chemicals and large cargos, and workplace safety culture cultivation will be conducted to ensure the effective implementation of safety management.

Environmental, Social and Governance Report

Through establishing and optimising the occupational health and safety management systems, we strive to build a safety culture that is conducive to the long-term development of the Company. We regularly organised a variety of safety drills and safety training each year and require each department to participate so as to raise employees' alertness awareness on safety incidents and their ability to tackle such incidents.

Operation Practices

Taking a highly responsible attitude toward our employees, customers and the environment, the Group unswervingly adheres to the strategies of quality of excellence, safe and healthy production management and highly responsible supply chain management and endeavours to create sustainable value, achieve win-win development and build glory together for customers and business partners. The Group cooperates closely with suppliers and retailers to deliver safe, quality products to customers, and is dedicated to maintaining a high level of industrial production transparency and product responsibility. Throughout its operations, the Group ensures it maintains a good social reputation by complying with all national and regional anti-corruption and anti-bribery policies.

Supply Chain Management

Coolpad Group Limited, as a global group of companies, has a supply chain that is distributed across the world. Coolpad has started to introduce a sustainable development risk assessment program for its suppliers since 2014, which sets up an all-round assessment and evaluation system for its suppliers as the basis for performance evaluation. A professional evaluation team will be formed to perform on-site audit which covers inspection on production procedures and equipment, quality control, research and development technology, commercial affairs and delivery schedule, supplier management, HSF and CSR, etc. As of the end of 2017, the Group has around 1,100 suppliers, about 900 of which are domestic suppliers.

The Group implements an efficient supply chain management system that optimises links between manufacturers, suppliers, distributors and retailers, optimising the allocation of social resources. Meanwhile, the Group realises an effective link between production and sales as well as a reasonable flow of logistics, information and capital through an efficient information network, and delivers quality products and considerate services to consumers in a timely manner at reasonable prices.

Coolpad has put in place an established system and strict standards for procurement from suppliers, to safeguard the interests of the Group and its customers, and monitor the behaviours of suppliers. While maintaining good and long-standing partnership with suppliers, we expect them to continuously refine the quality of products and services. By reference to the developments of international social and national policies, we request our suppliers to pursue energy saving, emissions reduction and environmental protection, and motivate ourselves and our suppliers to establish appropriate environmental policy. We endeavour to act in a social responsible manner, in an effort to drive ourselves and suppliers in achieving sustainable development and make contribution to the beautiful world.

Environmental, Social and Governance Report

Product Responsibility

The Group believes that providing quality products and excellent after-sales service is a crucial part of its successful corporate presence. The Group also believes that quality and customer first and keep pace with the age. System control is our quality assurance, zero defect is our unremitting pursuit. The Group takes the best of the industry as the benchmark, jointly undertake product responsibility with employees and suppliers and continuously improving and conducting process supervision.

Technological innovation is the source of enterprise's development. The idea of "everyone is an innovator" is already deeply rooted in the Group. Based on R&D ability and relied on technical progress, the Group creates its technical advantage by studying technology development trend, focusing on the market and fully tap the market and customer demand. The Group invests a large amount of resources each year to support product research and development and technological innovation. Headquartered in Shenzhen, the Group has set up R&D facilities in Xi'an, Nanjing, Dongguan, the United States and India respectively. The company aims at the most cutting-edge technology in the world, and focuses on independent innovation, and actively introducing, digesting and absorbing new technologies such as advanced platforms, systems and key materials. At the same time, we have established a system of research and development process management and evaluation system, constantly improving the R&D capability and the quality of research and development.

The Group attached great importance to Intellectual Property protection in order to better fulfil its product responsibility. The Company initiated a lawsuit against Xiaomi regarding patent infringement, more details could be referred to the Company's announcements made on 10 May 2018 and 14 November 2018. Beyond that, the Company had also appointed a Chief IP Officer for the first time ever to focus on Company IP & trademarks management. The Group hold a strong belief that by respecting and protecting Intellectual Property, we can promote industry innovation and create a healthy and sustainable development of the industry.

Based on the international leading IPD (integrated product development) process management system, continuous integration, benchmarking, optimization and improvement, the Group has formed a full process management of integrated product development with its own characteristics. The Group has introduced PLM (product life cycle management) information management platform from PTC, implemented electronic tracking and monitoring, to ensure the effective landing of the process. The Group continues to carry out technical innovation, implement technical research, knowledge accumulation and continuous improvement, and guarantee the core competitiveness of the Company's R&D.

The Group has established a comprehensive, strict quality control system, covering the whole product life cycle, including quality of product planning, R&D design quality, manufacturing quality, supplier quality, sales service quality, reliability test, customer satisfaction, quality of operation, etc. The Group's business process has achieved effective integration of multiple sets of quality management system, unified execution, and met certification requirements. The Group currently has passed ISO9001, ISO14001, OHSAS18000, QC080000, CNAS, CMMI L3 and other management system certification.

To accelerate the handling of customer complaints and enhance after-sale quality and customer satisfaction, we have formulated the thorough after-sale service network and hot line service. Our customer service department, after receiving the complaint, will verify the details and classify the cases of complaints according to the actual conditions. At the same time, the cases will be directed to the relevant responsible departments where, after receiving the relevant complaints, they will generally respond to the customer service department within one business day on the cause of complaint, analysis of the investigation results, handling status and preventive measures.

Environmental, Social and Governance Report

Anti-Corruption

The Group is dedicated to establishing itself as a trustworthy, law-abiding enterprise. The Group advocates a work ethic that insists on compliance with law, integrity, honesty and professional dedication, and bans any form of acceptance of advantages or acts of bribery. Explicit rules concerning employees' professional integrity are communicated through the employees' guidebook, training courses as well as guidelines, for example, on conflict of interest, while the efficiency of the Group's entire internal management system is reviewed regularly. Channels are also available for employees to report on internal misconduct. The daily operations of the Group strictly comply with established procedures; the internal audit department audits each subsidiary regularly and reports to the audit committee while implementing appropriate measures to ensure all regulations are complied with. Further, the Group also commissions third-party auditors to carry out independent audits. All these measures effectively promoted the implementation and the improvement of the Group's regulatory system. During the year under review, there were no legal cases brought against the Group or any of its employees for their corruption or associated irregularities.

Social Engagement

While maintaining a good shape for further development, Coolpad keeps in mind of rewarding the society and serving the community. Over the years, we have been taking active part in welfare and charity events. We address the social needs by supporting the underprivileged. To this effect, we have made tremendous financial and other contributions to creating value for the society in achieving sustainable development. Coolpad both supports and participates in various charity and public events, with a particular focus on the education, growth and development of young people from deprived backgrounds or environments.

The Coolpad Group always upholds the philosophy of "Giving Back to the Society, Caring about Charity" and its resolution to repay the community with charitable acts is testified by its long-term dedication to the cause of community welfare. In May 2017, Coolpad sponsored 22 teenagers selected by Los Angeles boys & Girls Club to take the "Discover China" trip to broaden their horizons and enhance their comprehensive abilities. In August of the same year, Coolpad also sponsored a night running welfare activity called "Run Together with Coolpad "(和酷派一起跑起來吧) held in the United States.

Directors and Senior Management

Directors

Executive Directors

Mr. JIANG Chao

Mr. JIANG Chao, aged 47, is an executive Director, vice chairman, the chief executive officer, and the chief financial officer of the Company. Mr. JIANG is responsible primarily for the finance and administrative functions of the Group. He is an associate member of the Association of Chartered Certified Accountants and a certified public accountant in the PRC. Mr. JIANG joined the Group in June 2002. Mr. JIANG has about 20 years of experience in accounting, finance and corporate management. Prior to joining the Group, he had worked for the State Audit Bureau. Mr. JIANG had also worked for Qiaoxing Electronic Company Limited (the shares of which are listed on the NASDAQ Stock Exchange, stock symbol: XING) and ZTE Corporation Limited (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763), where he was responsible for financial and accounting functions. Mr. JIANG was an independent non-executive director of Ming Fung Jewellery Group Limited (the shares of which are listed on the Stock Exchange, Stock Code: 860) from 2010 to 2015. Mr. JIANG is a member of Futian Committee of Chinese People's Political Consultative Conference. Mr. JIANG obtained a bachelor's degree in economics from Sun Yat-Sen University in 1991.

Mr. LI Bin (Resigned on 01 March 2017)

Mr. LI Bin, aged 47, is a former executive director of the Company. Mr. LI has more than 15 years of experience in software development and testing. Mr. LI joined the Group in June 1996. Prior to joining the Group, Mr. LI worked in China Sanjiang Aviation Industry Group Company (中國三江航天工業集團有限公司). Mr. LI obtained a bachelor's degree in computer science and software engineering from Huazhong University of Science and Technology in 1992.

Directors and Senior Management

Mr. ZHANG Wei (Appointed on 20 March 2017, resigned on 05 January 2018)

Mr. Zhang, aged 42, is a former executive director of the Company. Mr. ZHANG is a member of The Chinese Institute of Certified Public Accountants. Mr. Zhang graduated from Zhongnan University of Economics and Law (formerly known as Zhongnan University of Finance of Economics) with a bachelor's Degree in Accountant in 1998. Mr. Zhang obtained his master's degree from school of management of Dalian University of Technology in 2005 and obtained a doctor's degree from School of Accountancy of Central University of Finance and Economics in 2015. Mr. Zhang joined LeEco in 2015 and takes the responsibility of LeEco's finance management to promote ecological business development and investment planning and management. Mr. Zhang served as a partner of Ruihua Certified Public Accountants before joining LeEco, responsible for audit service of listed company.

Mr. JIA Yueting (Resigned on 17 November 2017)

Mr. JIA Yueting, aged 45, is a former executive Director and former chairman of the Company. Mr. JIA obtained his MBA degree from Shanxi University in September 2001. From September 1995 to July 1996, Mr. JIA worked as a network administrator at Yuanqu County Local Taxation Bureau in Shanxi Province. From 1996 to 2002, he worked as the general manager of Shanxi Yuanqu Zhuoyue Industry Co., Ltd. Mr. JIA founded Shanxi XBELL Communication Technology Co., Ltd. in 2002. He is the founding chairman of Beijing XBELL Communication Technology Co., Ltd., a company established in 2003 and listed on the Mainboard of the Singapore Exchange Limited in 2007 (stock code: D3W). In 2004, he founded Leshi Internet Information & Technology Corp. Beijing ("LETV"), a company listed on the Shenzhen Stock Exchange (stock code: 300104).

Mr. LEUNG Siu Kee (Appointed on 19 January 2018)

Mr. Leung, aged 41, is an executive Director, has more than 15 years of experience in accounting industry. Prior to joining our Group, Mr. Leung had worked in two international accounting firms for 5 years, mainly to provide auditing and business assurance services. He has been a director of a CPA Limited and a company providing accounting and taxation services since August 2008 and September 2016, respectively. Mr. Leung has been an independent non-executive director of China Chuanglian Education Financial Group Limited (stock code: 2371), which is listed on the Stock Exchange, since December 2009. He had been an independent non-executive director of KK Culture Holdings Limited (formerly known as Cinderella Media Group Limited and Recruit Holdings Limited, stock code: 550), which is listed on the Stock Exchange, for the period between September 2015 and December 2016, and has been a non-executive director of KK Culture Holdings Limited since December 2016. Mr. Leung obtained a bachelor degree of business administration in accounting from The Hong Kong University of Science and Technology in November 1998 with first class honour. He has been a member of the Hong Kong Society of Accountants since March 2003 and currently a practising certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. LIANG Rui (Appointed on 19 January 2018)

Mr. Liang, aged 42, is an executive Director, and is currently a president of Shenzhen Shuibei 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. Since December 2017, he has been serving as the president of Shenzhen Shuibei Jewelry Group.

Directors and Senior Management

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

Mr. Lam, aged 38, 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.

Non-Executive Directors

Mr. LIU Jiangfeng (Re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)

Mr. Liu, aged 46, is a former executive Director and former chief executive officer of the Company. Mr. Liu graduated from Southeast University with a Bachelor's Degree in Computer Science in 1992. Mr. Liu has more than 20 years of experience in communication industry. He had served in Huawei for 19 years since 1996 and had successively served as the president of Global Technology Service Division, vice president of Network Product Line, vice president of Asia Pacific District and the president of Honor Business Unit. Under Mr. Liu's leadership, Honor, an independent subsidiary brand of Huawei, has become one of the most famous e-commerce brands in the mainland China. In 2015, Mr. Liu founded Dmall Fresh (Beijing) E-Commerce Co., Ltd., a retail platform selling fresh fruits and daily necessities online.

Mr. Abulikemu Abulimiti (Re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)

Mr. Abulimiti, aged 37, is a former executive Director of the Company. Mr. Abulimiti graduated from the Department of Biology at Tsinghua University with a Bachelor degree in 2004, and from Tsinghua University School of Economics and Management with a Master degree in 2006. Before joining LeEco, Mr. Abulimiti served as the executive director of Roland Berger Strategy Management Consultants (Shanghai) Ltd., responsible for business development and project management in the fields of Internet, consumer goods and aviation.

Mr. MA Lin (appointed on 17 November 2017, resigned on 05 January 2018)

Mr. Ma Lin, aged 39, is a former non-executive director of the Company. Mr. Ma obtained a master's degree in engineering from Huazhong University of Science and Technology. He joined Meizu Technology Co., Ltd. in the year of 2007 and was appointed as the vice president of research and development in the year of 2011, responsible for product research and development of the company. In the year of 2014, he joined Leshi Zhixin Electronic Technology Co., Ltd. and served as the vice president of the company.

Mr. WANG Junmin (appointed on 17 November 2017, resigned on 05 January 2018)

Mr. Wang Junmin, aged 38, is a former non-executive director of the Company. Mr. Wang obtained a master degree of senior business management from Tsinghua University. In the year of 2004, he joined Leshi Internet Information and Technology (Beijing) Corp.. He held several positions in Le Holdings (Beijing) Co., Ltd. including the vice president for operator business, vice president for government business and vice president for supervision.

Directors and Senior Management

Mr. YANG Yongqiang (appointed on 17 November 2017, resigned on 05 January 2018)

Mr. Yang Yongqiang, aged 38, is a former non-executive director of the Company. Mr. Yang obtained a bachelor's degree of science from Lanzhou University. He served as the technical director of Pansky Technology Co., Ltd. from year of 2003 to year of 2005, and served as the vice president, CTO of Leshi Internet Information and Technology (Beijing) Corp., chairman of Leshi Cloud Computing Co., Ltd. and CEO of Leshi Interactive Entertainment Technology Co., Ltd. from year of 2005 to October 2017.

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

Mr. Ng, aged 54, is a non-executive Director, and is a practicing solicitor and a partner in Iu, 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.

Mr. LIU Hong (Re-designated from executive Director on 19 January 2018, resigned on 3 April 2018)

Mr. LIU Hong, aged 45, is a former non-executive Director of the Company. Mr. LIU graduated and obtained a Bachelor's Degree in Mechanical Manufacturing Technology and Equipment from Nanchang Institute of Aeronautical Technology in July 1995; graduated and obtained a Bachelor's Degree in Journalism from Beijing Broadcasting Institute in July 1997; and graduated and obtained a Master's degree in Law from the University of International Business and Economics in January 2003. He is also a veteran reporter. From 1997 to 2004, he worked as a reporter at China Radio International. He was included among the 100 top journalists in 1998 by the Publicity Department of the CPC Central Committee for his efforts in reporting flood disaster relief actions in China. He joined LETV, a company listed on the Shenzhen Stock Exchange (stock code: 300104), in October 2004 and held various positions in LETV from 2004 to 2018, including deputy general manager, head of financial department and the vice-chairman and deputy general manager of LETV. He is also serving as the non-executive director of Beijing Media Corporation Limited, a company listed on the Stock Exchange (stock code: 1000).

Directors and Senior Management

Independent Non-Executive Directors

Mr. CHAN King Chung

Mr. CHAN King Chung, aged 55, 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.

Dr. HUANG Dazhan

Dr. HUANG Dazhan, aged 60, 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.

Mr. XIE Weixin

Mr. XIE Weixin, aged 76, 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.

Directors and Senior Management

Senior Management

Mr. XU Yibo

Mr. XU Yibo, aged 43, is an executive vice president of the Group, responsible for R&D system 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.

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 Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 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 macroeconomic risks, risks of inappropriate strategies for marketing competition, risks of the fluctuation of raw materials price, risks of adjustments of policies in relation to the economy and the industry. The potential risks of macroeconomic risks arise from the effects of macro-economy's volatility, the pressure of inflation, foreign currency risk, and interest rate risk. The potential risks of inappropriate strategies for market competition arise from the risks involved in the formulation of competition strategies, risks involved in the collection of clients' information.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below 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 loss for the year ended 31 December 2017 and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 64 to 166.

Considering daily operation needs after the restructuring of the Group, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2017.

Annual General Meeting

The forthcoming annual general meeting of the Company will be held on 11 January 2019.

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 8 January 2019 to 11 January 2019 (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 Monday, 7 January 2019.

Charitable Donations

In the year under review, the Group's charitable donations were approximately RMB230,000 (2016: RMB800,000).

Report of the Directors

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, prepared on the basis set out in note 2.1 to the financial statements.

	Year ended 31 December				
	2017*	2016*	2015*	2014*	2013*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**3,378,077**	7,969,477	14,667,866	24,900,471	19,623,652
(Loss)/profit before tax	**(2,702,251)**	(4,356,068)	2,311,011	606,629	437,373
Tax	**(20,825)**	(45,352)	(34,505)	(92,551)	(89,121)
(Loss)/profit for the year	**(2,723,076)**	(4,401,420)	2,276,506	514,078	348,252
Attributable to owners of the Company	**(2,674,457)**	(4,379,631)	2,324,518	512,855	348,547

	As at 31 December				
	2017*	2016*	2015*	2014*	2013*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**1,991,344**	2,741,032	5,745,328	1,625,586	1,251,002
Current assets	**2,859,486**	7,113,372	8,537,979	11,218,500	8,810,732
Non-current liabilities	**296,464**	67,213	225,116	1,704,409	57,904
Current liabilities	**3,764,950**	6,248,881	6,641,496	7,779,761	7,242,936
Net assets	**789,416**	3,538,310	7,416,695	3,359,916	2,760,894

* extracted from the published audited financial statements and restated/reclassified as appropriate

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 13 to the financial statements.

Investment Properties

As at 31 December 2017, details of the Group's investment properties are set out below:

Location	Group interest	Tenure	Use	Gross floor area
High Tech Plaza Tian An Cyberpark, Chegongmiao Futian District, Shenzhen Guangdong Province the PRC	100%	The property is held for a term of 50 years commencing on 16 November 1988	Office	3,802.01 sq.m.

Details of movements in the investment properties of the Group are set out in note 14 to the financial statements.

Share Capital and Share Options

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.

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.

The Group has appointed a trustee (the "Trustee") for the purposes of administering the Share Award Plan. The Trustee will be 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 will 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.

Report of the Directors

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.

Issue, Purchase, Redemption or Sale of Listed Securities of the Company

During the reporting period, 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 44 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$1,622,264,000. The Board do not recommend the payment of any final dividend for the year ended 31 December 2017. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$1,280,624,000 in total as at 31 December 2017, 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 the mainland China while the Company itself was incorporated in 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 the mainland China. 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 ended 31 December 2017.

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 section headed "Environmental, Social and Governance" on pages 25 to 34 of this annual report.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 72% of the total sales for the year and sales to the largest customer included therein amounted to 35%. Purchases from the Group's five largest suppliers accounted for approximately 51.07% of the total purchases for the year ended 31 December 2017 and purchases from the largest supplier included therein amounted to 16.59%.

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. During the reporting period, there was no material and significant dispute between the Group and its suppliers and/or customers.

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. JIANG Chao
Mr. LI Bin (resigned on 01 March 2017)
Mr. JIA Yueting (resigned on 17 November 2017)
Mr. ZHANG Wei (appointed on 20 March 2017, resigned on 05 January 2018)
Mr. Leung Siu Kee (appointed on 19 January 2018)
Mr. Lam Ting Fung Freeman (appointed on 19 January 2018)
Mr. Liang Rui (appointed on 19 January 2018)

Non-Executive Directors

Mr. LIU Jiangfeng (re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)
Mr. Abulikemu Abulimiti (re-designated from executive Director on 31 August 2017, resigned on 17 November 2017)
Mr. MA Lin (appointed on 17 November 2017, resigned on 05 January 2018)
Mr. WANG Junmin (appointed on 17 November 2017, resigned on 05 January 2018)
Mr. YANG Yongqiang (appointed on 17 November 2017, resigned on 05 January 2018)
Mr. Ng Wai Hung (appointed on 19 January 2018)
Mr. LIU Hong (re-designated from executive Director on 19 January 2018, resigned on 3 April 2018)

Independent Non-Executive Directors

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

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. LEUNG Siu Kee, Mr. LIANG Rui and Mr. JIANG Chao will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. Save for the aforesaid, the other remaining directors of the Company would continue in office.

The Company has received from each of the independent non-executive Directors an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Board still considers each of the independent non-executive Directors 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 35 to 40 of the Annual Report.

Report of the Directors

Directors' Service Contracts

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.

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 notes 25 and 39 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 notes 25 and 39 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.

Issue of Convertible Bonds

On 17 October 2017, the Company entered into the Subscription Agreement with the Subscriber in respect of the issue of the Convertible Bonds with the nominal value of HK$581,947,585.44.

The Convertible Bonds will bear interest at the rate of 5% per annum, which will be adjusted to 2.5% upon exercise in full of the conversion rights by the Subscriber. The Convertible Bonds may be converted into approximately 1,001,630,956 new shares of the Company at the Conversion Price of HK$0.581 per share.

The issue of Convertible Bonds under the Subscription Agreement is subject to the satisfaction of the following conditions:

(i) the issue of Convertible Bonds has been approved by the Board of the Company;

(ii) the General Mandate of the Company remains valid and has not been revoked;

(iii) the grant of the listing of, and permission to deal in, the Ordinary Shares issued by way of Convertible Bonds have been obtained from the listing committee of the Stock Exchange and have not been withdrawn or revoked;

Report of the Directors

(iv) other approvals and permits (if any) in respect of the Convertible Bonds have been obtained by the Subscriber;

(v) the representations and warranties set out in the Subscription Agreement remain true, accurate and complete in all respects;

(vi) the resumption of the listing and trading of the Ordinary Shares of the Company have been approved by the Stock Exchange and the terms have been accepted by the Subscriber; and

(vii) the Subscriber has completed due diligence on the Company and the subsidiaries and connected companies of the Company and is satisfied with the results.

If the above condition precedent (iii) is not satisfied as at 30 December 2017, the Subscriber may terminate or renew, subject to the upper limit of one year, the Subscription Agreement.

The Group is a leading developer and provider of integrated solutions for smartphone sets, mobile data platform system, and value-added added business operations in the PRC. The Directors believed that the issue of the Convertible Bonds represent an opportunity to enhance the financial position of the Company, thereby provides working capital for the business development of the Group. The Directors also believed that the issue of the Convertible Bonds will provide funds for the Company without causing immediate dilution effect on the shareholdings of existing Shareholders, and the capital base of the Company will be enlarged if the con-version right was exercised.

The Directors consider that the terms of the Subscription Agreement, including the conditions, are fair and reasonable, in the interests of the Company and its Shareholders as a whole and the Subscription Agreement was entered into on normal commercial terms after arm's length negotiations by the parties thereto.

In light of the fact that the condition precedent (iii) (i.e. the grant of the listing of, and permission to deal in, the Ordinary Shares issued by way of Convertible Bonds have been obtained from the listing committee of the Stock Exchange and have not been withdrawn or revoked) cannot be satisfied by 30 December 2017, pursuant to the Subscription Agreement, the Subscriber is entitled to terminate or renew, subject to the upper limit of one year, the Subscription Agreement. Therefore, the Subscriber and the Company entered into the side letter of Subscription Agreement on 28 December 2017, pursuant to which the long stop date to the Subscription Agreement shall be extended to 30 December 2018.

Report of the Directors

Continuing Connected Transactions

During the year ended 31 December 2017, some of the Company's subsidiaries had entered into (or continued to be a party to) the following continuing connected transactions which are subject to the annual review and reporting requirements under Chapter 14A of the Listing Rules:

(A) The Purchase of Raw Materials Transaction

Background:	On 16 May 2017, Dongguan Yulong Telecommunication Tech Co., Ltd. ("Dongguan Yulong"), a wholly-owned subsidiary of the Company, entered into the key component procurement framework agreement (the "Key Component Procurement Framework Agreement") with Lesai Mobile Hong Kong Limited ("Lesai Mobile"). The Key Component Procurement will expire on 31 December 2017. Particulars of the Key Component Procurement Framework Agreement together with the total consideration for the year ended 31 December 2017 are disclosed below as required under the Listing Rules.
Nature of transactions:	Purchase of raw materials for the production of smartphone from Lesai Mobile.
Terms:	The purchase price are determined with reference to the lower of: (i) the then prevailing market price of the products, and (ii) the price paid by Dongguan Yulong for procuring the products from independent third parties. Lesai Mobile has undertaken that the prices of the products offered to Dongguan Yulong shall be no higher than offered to independent third parties under the same conditions.
Annual cap (tax inclusive):	USD10,000,000
Total consideration for the year (tax inclusive):	USD1,364,160

Report of the Directors

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2017 has followed the pricing principles of such continuing connected transactions.

The directors of the Company have reviewed and confirmed that the continuing connected transaction mentioned in (A) 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 transactions 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 auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions 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.

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

As at 31 December 2017, 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
Mr. Jiang Chao	*1*	23,000,000	–	–	483,000	–	–	23,483,000	0.47
Mr. Chan King Chung		441,600	–	–	–	–	–	441,600	0.01
Mr. Huang Dazhan		288,000	–	–	–	–	–	288,000	0.01
Mr. Xie Weixin		384,000	–	–	–	–	–	384,000	0.01

Report of the Directors

Notes:

1 Mr. JIANG Chao, an executive Director, was interested in the 483,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the Coolpad Group Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the Coolpad Group Share Award Plan.

2 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.

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

As at 31 December 2017, 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. Jia Yueting	*1*	1,448,804,386	Interest of controlled corporation	1,448,804,386	28.78
Mr. Guo Deying	*2*	462,889,484	Founder of a discretionary trust	463,372,484	9.21
		483,000	Through controlled corporation		
Data Dreamland Holding Limited ("Data Dreamland")	*2*	462,889,484	Beneficial owner	462,889,484	9.20
HSBC International Trustee Limited ("HSBC Trustee")	*3*	463,889,484	Trustee	463,889,484	9.22
Lele Holding Ltd.	*1*	1,448,804,386	Interest of controlled corporation	1,448,804,386	28.78

Report of the Directors

Notes:

1. The 1,448,804,386 shares were directly held by Leview Mobile HK Ltd., the entire issued share capital of which is held by a wholly owned group of corporations namely (from bottom to top) Leview Mobile Ltd, Le Ltd, LeEco Global Holding Ltd. and Lele Holding Ltd. and is ultimately owned by Mr. Jia Yueting. Therefore, Mr. Jia Yueting is indirectly interested in the 1,448,804,386 shares of the Company.

2. 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.

3. 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.

Save as disclosed above, as at 31 December 2017, 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.

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.

Report of the Directors

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

Name or category of participant	Number of share options: At 1 January 2017	Grant during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 31 December 2017	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Employees									
In aggregate – granted on 20 May 2008	3,564,000	–	800,000	–	–	2,764,000	20-05-08	20-05-14 to 19-05-18	0.337
In aggregate – granted on 30 Jun 2010	–	–	–	–	–	–	28-06-10	28-06-11 to 27-06-15	1.620
In aggregate – granted on 30 Jun 2010	–	–	–	–	–	–	28-06-10	28-06-12 to 27-06-16	1.620
In aggregate – granted on 30 Jun 2010	13,448,000	–	–	13,448,000	–	–	28-06-10	28-06-13 to 27-06-17	1.620
In aggregate – granted on 30 Jun 2010	15,000,000	–	–	–	504,000	14,496,000	28-06-10	28-06-14 to 27-06-18	1.620
In aggregate – granted on 12 July 2011	–	–	–	–	–	–	12-07-11	12-07-12 to 11-07-16	0.839
In aggregate – granted on 12 July 2011	336,000	–	–	–	–	336,000	12-07-11	12-07-14 to 11-07-18	0.839
In aggregate – granted on 27 Dec 2012	23,819,000	–	–	23,819,000	–	–	27-12-12	27-12-13 to 27-12-17	1.164
In aggregate – granted on 27 Dec 2012	4,656,000	–	–	–	1,392,000	3,264,000	27-12-12	27-12-15 to 27-12-19	1.164
In aggregate – granted on 10 Jan 2014	28,576,000	–	–	–	3,366,000	25,210,000	10-01-14	10-1-15 to 10-1-19	1.540
In aggregate – granted on 10 Jan 2014	2,000,000	–	–	–	1,500,000	500,000	10-01-14	10-1-17 to 10-1-21	1.540
In aggregate – granted on 22 Jan 2015	45,448,000	–	–	–	9,936,000	35,512,000	22-1-15	22-1-16 to 22-1-20	1.492
In aggregate – granted on 22 Jan 2015	8,416,000	–	–	–	3,456,000	4,960,000	22-1-15	22-1-17 to 22-1-21	1.492
In aggregate – granted on 16 Oct 2015	46,480,000	–	–	–	16,476,000	30,004,000	16-10-15	16-10-16 to 16-10-20	1.620
In aggregate – granted on 16 Oct 2015	66,000,000	–	–	–	42,000,000	24,000,000	16-10-15	16-10-17 to 16-10-21	1.620
Directors									
In aggregate – granted on 20 May 2008	–	–	–	–	–	–	20-05-08	20-05-10 to 19-05-14	0.337
In aggregate – granted on 27 Feb 2009	–	–	–	–	–	–	27-02-09	27-02-10 to 26-02-14	0.199
In aggregate – granted on 27 Feb 2009	–	–	–	–	–	–	27-02-09	27-02-13 to 26-02-17	0.199
In aggregate – granted on 30 Jun 2010	4,000,000	–	–	–	–	4,000,000	28-06-10	28-06-14 to 27-06-18	1.620
In aggregate – granted on 12 July 2011	–	–	–	–	–	–	12-07-11	12-7-12 to 11-07-16	0.839
In aggregate – granted on 27 Dec 2012	4,000,000	–	–	–	2,000,000	2,000,000	27-12-12	27-12-15 to 27-12-19	1.164
In aggregate – granted on 16 Oct 2015	40,000,000	–	–	–	40,000,000	–	16-10-15	16-10-17 to 16-10-21	1.620
Subtotal	305,743,000	–	800,000	37,267,000	120,630,000	147,046,000			
Business consultants									
Total	305,743,000	–	800,000	37,267,000	120,630,000	147,046,000			

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

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of a share option is the amount that the employee is required to pay to obtain each share under the option.

Report of the Directors

Audit Committee

The Audit Committee, which currently comprises three independent non-executive Directors, 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 ended 31 December 2017.

Directors' Interests in a Competing Business

As at 31 December 2017, so far as the Directors were aware, the following Directors (not being independent non-executive Directors) were considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules as set out below:

As at 31 December 2017, Mr. JIA Yueting, the executive Director, ultimately controls Leshi Mobile Intelligent Information & Technology (Beijing) Co., Ltd. (樂視移動智能信息技術（北京）有限公司), which is principally engaged in mobile phone business and therefore, Mr. Jia Yueting is considered to have interest in the business which competes or is likely compete, either directly or indirectly, with the mobile phone businesses of the Group ("Businesses") pursuant to the Listing Rules.

Although Mr. JIA Yueting have competing interests in other companies, he will fulfill his fiduciary duties in order to ensure that he will act in the best interest of the shareholders of the Company and the Group as a whole at all times.

Save as disclosed above, as at the Latest Practicable Date, 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.

Material Legal Proceedings

During the year under review, 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 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.

Foreign Exchange Exposure

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. The Group has not entered into any derivative contracts to hedge against the risk in the year 2017.

Report of the Directors

Employees and Remuneration Policy

During the year ended 31 December 2017, the Group's staff costs (including directors' remuneration) amounted to approximately 548.99 million (2016: HK$697.86 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 2017, the Group had 1,421 employees (2016: 4,504 employees).

Significant Investments

There were no significant investments held by the Group as at 31 December 2017.

Material Acquisitions and Disposal

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 ended 31 December 2017. 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.

Independent Auditor's Report on the Company's Consolidated Financial Statements for the Year ended 31 December 2017

As disclosed in sections headed "Basis for Qualified Opinion" and "Qualified Opinion" in independent auditor's report contained on pages 58 to 59 of this report, the auditor considers the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended except for: (1) Interest income arising from prepayments made in the prior year ended 31 December 2016; and (2) Related parties.

The Board's Response to the Auditor's Qualified Opinion

In respect of the Qualified Opinion issued by the Auditor to the consolidated financial information of the Company for the year ended 31 December 2017 as set out in the Independent Auditor's Report, the Board intends to take this opportunity to provide further explanation and supporting information for public reference.

1. Interest income arising from prepayments made in the prior year ended 31 December 2016

During the year ended 31 December 2017, the Group recorded aggregate interest income of HK$24.6 million which comprised interest income of HK$18.1 million arising from a prepayment made in prior year in connection with a potential investment and an interest income of HK$6.5 million arising from another prepayment for purchase of raw materials made in the prior year ended 31 December 2016. Details of the prepayments and the interest income are disclosed in notes 24 and 5, respectively, to the consolidated financial statements.

This interest income was calculated and received in full according to the terms of the agreement at that time, and the interest rate was higher than the interest rate of RMB borrowing published by the People's Bank of China for the same period.

Report of the Directors

2. Related parties

During the year ended 31 December 2017, the Group recorded interest income of approximately HK$10 million in aggregate, out of which, an aggregate amount of HK$8.4 million was in relation to loans advanced to four entities established in the People's Republic of China (the "PRC") which amounted to approximately RMB335 million (equivalent to HK$377.4 million). These loans together with the interest income were repaid in 2017. Details of the loans and the interest income have been disclosed in note 5 to the consolidated financial statements.

The auditor find that the shareholder of three of these PRC entities owns another entity of which the contact details (i.e. email domain and facsimile number) were the same with those published in Leshi Internet's annual report, and the remaining PRC entity had signed a loan transfer agreement with the fifth PRC entity to transfer the debt to this fifth PRC entity, the correspondence address of this fifth PRC entity is the same as the address published in Leshi's annual report.

We are of the view that the aforementioned information is insufficient to conclude that these PRC entities were related parties of the Company. The relevant parties and management personnel involved in the transactions had left the Company, and the Group had collected all principal and interest accrued without any loss.

Recent Development on the Board's Response to Material Uncertainty Related to Going Concern

As the Auditor has raised uncertainties relating to the going concern of the Group, the Board would like to take this opportunity to provide the following information regarding the financial and operating plans of the Group for public reference, which serves as the primary basis for which the Board determines that the Group will be able to operate as a going concern in the foreseeable future.

The Group is using its best efforts to refine the Group's operating plan, cash flow forecasts and management evaluation and to communicate and negotiate proactively with banks, organizations and interested parties to acquire sufficient banking borrowings or financing for the Group's operation. As disclosed in the announcement of the Company dated 18 May 2018, Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong"), a wholly-owned subsidiary of the Company, and Kingkey Group Company Limited (京基集團有限公司) ("Kingkey Group") entered into a maximum loan contract, whereby Kingkey Group has agreed to provide a loan with maximum amount no more than RMB500,000,000 to Yulong for corporate operation with a term of 12 months at annual rate of 6.5%. The Company has also disposed certain investment properties and equity interest of non-core operation subsidiaries to enhance liquidity and financial position for business operation.

In order to cope with the challenges and uncertainties arising from the volatile market environment, the Group will take reasonable strategies to manage the operating plan and strategy for improving the Group's financial position. While the Group continues to put its best efforts to reduce production and operation costs, we are also actively seeking business opportunities to develop new market regions, research and develop new products and is committed to enhancing our brand value, particularly in those overseas markets represented by the United States region. The Board is of the view that such measures will offer much more flexibility for the Group to adapt to market changes while providing more choices and better services to our existing customers, thereby improving the long-term competitiveness of the Group.

Events after the Reporting Period

Details of the significant events of the Group after the reporting period are set out in note 43 to the financial statements.

Auditor

Ernst & Young 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

Jiang Chao
Vice Chairman, Executive Director & Chief Executive Officer

4 December 2018, Hong Kong

Independent Auditor's Report

To the shareholders of Coolpad Group Limited
(Incorporated in the Cayman Islands with limited liability)

Qualified Opinion

We were engaged to audit the consolidated financial statements of Coolpad Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 166, which comprise the consolidated statement of financial position as at 31 December 2017, 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, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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 Qualified Opinion

1. Interest income arising from prepayments made in the prior year ended 31 December 2016

During the year ended 31 December 2017, the Group recorded aggregate interest income of HK$24.6 million which comprised interest income of HK$18.1 million arising from a prepayment made in the prior year in connection with a potential investment and interest income of HK$6.5 million arising from another prepayment for purchases of raw materials made in the prior year ended 31 December 2016. Details of the prepayments and the interest income are disclosed in notes 24 and 5 respectively, to the consolidated financial statements. As we were unable to obtain sufficient reliable audit evidence regarding the commercial substance of the prepayments made in the prior year, we were unable to satisfy ourselves as to whether these amounts of interest income have been properly accounted for and disclosed in the consolidated financial statements for the year ended 31 December 2017.

Independent Auditor's Report

Basis for Qualified Opinion (Continued)

2. Related parties

As stated in note 5 to financial statements, during the year ended 31 December 2017, the Group recorded interest income of approximately HK$10 million in aggregate, out of which, an aggregate amount of HK$8.4 million was in relation to loans advanced to four entities established in the People's Republic of China (the "PRC") which amounted to approximately RMB335 million (equivalent to HK$377.4 million). These loans together with the interest income were repaid and received in 2017. Details of the loans and the interest income have been disclosed in note 5 to the consolidated financial statements.

Management represented to us that these PRC entities were third parties. However, during the audit, we noted that these PRC entities were associated with a then related party, 樂視網資訊技術（北京）股份有限公司 ("Leshi Internet"), a PRC listed company which was controlled by the former chairman of the Company. We noted that the shareholder of three of these PRC entities owns another entity of which the contact details (i.e. email domain and facsimile number) were the same as those of Leshi Internet published in its annual report, and we also observed that the remaining PRC entity had signed a loan transfer agreement with the fifth PRC entity to transfer the debt to this fifth PRC entity. The correspondence address of this fifth PRC entity is the same as the address published in Leshi's annual report.

We were unable to determine whether these PRC entities were related parties and consequently, whether adequate disclosures of the related party transactions have been provided in the financial statements for the year ended 31 December 2017.

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 qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2.1 to the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK$2,723 million during the year ended 31 December 2017 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$905 million. As stated in note 2.1, these events or conditions, 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.

Independent Auditor's Report

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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the Basis for Qualified Opinion section of our report, we have determined "Impairment of non-current assets" to be the key audit matter to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current assets	
The decline in the revenue and continuing operating losses of the Group in recent years is the factor which heightens the risk of impairment associated with the Group's non-current assets carried at historical cost, comprising property, plant and equipment including construction in progress of HK$619 million, prepaid land lease payments of HK$271 million and intangible assets of HK$13 million as at 31 December 2017. 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 accounting policies and disclosures for the Group's non-current assets are included in notes 3, 13, 15 and 16 to the consolidated financial statements.	We reviewed management's impairment assessment of these assets by comparing the carrying values of the long-term assets to their respective recoverable amounts. For the Group's prepaid land lease payments and construction in progress, management determined their respective recoverable amounts based on their market values obtained from an external valuation. We involved our valuation specialists to independently obtain the estimated market values of these assets and compare them to the respective carrying amounts. For the Group's other non-current assets such as property, plant and equipment, intangible assets, leasehold improvements and motor vehicles, management determined their recoverable amounts based on their value in use using a discount cash flow model. We assessed the assumptions and methodologies (long term growth rate, budgeted prices based on the market trend and the budgeted sales quantity based on the existing production capacity) adopted by management, and involved our valuation specialists to assist us in 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

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 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 management determines 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 management either intends to liquidate the Group or to cease operations, or has 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

From the matters communicated with 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.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by us and a disclaimer of opinion was issued on those financial statements on 3 April 2018.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

4 December 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**3,378,077**	7,969,477
Cost of sales		**(3,696,480)**	(7,614,994)
Gross (loss)/profit		**(318,403)**	354,483
Other income and gains	5	**367,440**	449,889
(Loss)/gain on loss of control of subsidiaries	34	**(534)**	154,089
Loss on disposal of an investment in a joint venture		**–**	(1,837,114)
Impairment of investments in associates	18	**(453,694)**	(793,445)
Selling and distribution expenses		**(667,863)**	(1,009,958)
Administrative expenses		**(709,261)**	(954,989)
Other expenses		**(752,782)**	(324,182)
Finance costs	7	**(26,248)**	(83,995)
Share of losses of:			
Joint ventures		**(3,765)**	(138,969)
Associates		**(137,141)**	(171,877)
Loss Before Tax	6	**(2,702,251)**	(4,356,068)
Income tax expense	10	**(20,825)**	(45,352)
Loss for the Year		**(2,723,076)**	(4,401,420)
Other Comprehensive Expense			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments		**377**	(425)
Exchange differences on translation of foreign operations		**40,113**	(132,276)
Reclassification adjustment for a foreign operation disposed of during the year	34	**111**	19,048
Share of other comprehensive income/(expense) of:			
Joint ventures		**6,560**	(493)
Associates		**21,549**	(28,277)
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods		**68,710**	(142,423)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
(Loss)/gain on property revaluation	*13*	**(37,059)**	37,135
Income tax effect	*31*	**5,940**	(6,773)
Net other comprehensive (expense)/income not to be reclassified to profit or loss in subsequent periods		**(31,119)**	30,362
Other Comprehensive Income/(Expense) for the Year, Net of Tax		**37,591**	(112,061)
Total Comprehensive Expense for the Year		**(2,685,485)**	(4,513,481)
Loss attributable to:			
Owners of the Company		**(2,674,457)**	(4,379,631)
Non-controlling interests		**(48,619)**	(21,789)
		(2,723,076)	(4,401,420)
Total comprehensive expense attributable to:			
Owners of the Company		**(2,636,943)**	(4,481,811)
Non-controlling interests		**(48,542)**	(31,670)
		(2,685,485)	(4,513,481)
Loss Per Share Attributable to Ordinary Equity Holders of the Company	*12*	**HK cents**	HK cents
Basic		**(53.14)**	(89.82)
Diluted		**(53.14)**	(89.82)

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-Current Assets			
Property, plant and equipment	13	**943,870**	997,534
Investment properties	14	**120,013**	106,427
Prepaid land lease payments	15	**271,171**	348,646
Intangible assets	16	**12,855**	26,451
Investments in joint ventures	17	**106,677**	108,288
Investments in associates	18	**448,468**	1,050,857
Available-for-sale investments	19	**34,921**	31,068
Loans receivable	23	**18,266**	25,001
Other non-current assets	24	**26,825**	41,062
Deferred tax assets	31	**8,278**	5,698
Total non-current assets		**1,991,344**	2,741,032
Current Assets			
Inventories	20	**395,569**	1,395,870
Trade receivables	21	**616,478**	860,599
Bills receivable	22	**11,572**	82,491
Short-term loans receivable	23	**64,710**	369,545
Prepayments, deposits and other receivables	24	**1,160,450**	2,540,530
Due from directors	25	**–**	500
Due from associates	39	**43,801**	11,261
Due from other related parties	39	**–**	182,683
Pledged deposits	26	**115,776**	361,811
Cash and cash equivalents	26	**451,130**	1,308,082
Total current assets		**2,859,486**	7,113,372
Current Liabilities			
Trade payables	27	**756,397**	1,784,925
Bills payable	28	**45,934**	1,321,077
Other payables and accruals	29	**1,886,662**	1,605,686
Interest-bearing bank and other borrowings	30	**684,966**	1,123,095
Due to associates	39	**277,082**	268,420
Due to a joint venture	39	**–**	4,406
Due to other related party	39	**–**	50,538
Tax payable		**113,909**	90,734
Total current liabilities		**3,764,950**	6,248,881
Net Current (Liabilities)/Assets		**(905,464)**	864,491
Total Assets Less Current Liabilities		**1,085,880**	3,605,523

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Total Assets Less Current Liabilities		**1,085,880**	3,605,523
Non-Current Liabilities			
Interest-bearing bank and other borrowings	*30*	**239,260**	–
Deferred tax liabilities	*31*	**55,823**	57,493
Other non-current liabilities		**1,381**	9,720
Total non-current liabilities		**296,464**	67,213
Net assets		**789,416**	3,538,310
Equity			
Equity attributable to owners of the Company			
Share capital	*32*	**50,334**	50,326
Reserves		**793,592**	3,492,582
		843,926	3,542,908
Non-controlling interests		**(54,510)**	(4,598)
Total equity		**789,416**	3,538,310

Jiang Chao
Director

Leung Siu Kee
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Notes	Share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000
		Attributable to owners				
At 1 January 2017		**50,326**	**1,235,203**	**390**	**161,535**	**(2,691)**
Loss for the year		–	–	–	–	–
Other comprehensive (expense)/income for the year:						
Loss on property revaluation, net of tax		–	–	–	(31,119)	–
Changes in fair value of available-for-sale investments	*19*	–	–	–	–	377
Exchange differences related to foreign operations		–	–	–	–	–
Reclassification adjustment for a foreign operation disposed of during the year		–	–	–	–	–
Share of other comprehensive expense of:						
Joint ventures		–	–	–	–	–
Associates		–	–	–	–	–
Total comprehensive (expense)/income for the year		–	–	–	(31,119)	377
Issue of shares upon exercise of share options	*33*	8	429	–	–	–
Equity-settled share option arrangements	*33*	–	–	–	–	–
Appropriation to statutory reserve		–	–	–	–	–
Disposal of a subsidiary	*34*	–	–	–	–	–
Share of changes to other net assets of associates		–	–	–	–	–
At 31 December 2017		**50,334**	**1,235,632***	**390***	**130,416***	**(2,314)***

* These reserve accounts comprise the consolidated reserves of HK$793,592,000 (2016: HK$3,492,582,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

of the Company									
Statutory reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
199,230	154,257	43,564	1,870	1,683,863	(107,544)	122,905	3,542,908	(4,598)	3,538,310
–	–	–	–	–	–	(2,674,457)	(2,674,457)	(48,619)	(2,723,076)
–	–	–	–	–	–	–	(31,119)	–	(31,119)
–	–	–	–	–	–	–	377	–	377
–	–	–	–	–	40,036	–	40,036	77	40,113
–	–	–	–	–	111	–	111	–	111
–	–	–	–	–	6,560	–	6,560	–	6,560
–	–	–	–	–	21,549	–	21,549	–	21,549
–	–	–	–	–	68,256	(2,674,457)	(2,636,943)	(48,542)	(2,685,485)
–	(165)	–	–	–	–	–	272	–	272
–	(28,086)	–	–	–	–	–	(28,086)	–	(28,086)
1,295	–	–	–	–	–	(1,295)	–	–	–
–	–	–	–	–	–	–	–	(1,370)	(1,370)
–	–	–	–	(34,225)	–	–	(34,225)	–	(34,225)
200,525*	126,006*	43,564*	1,870*	1,649,638*	(39,288)*	(2,552,847)*	843,926	(54,510)	789,416

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

		Attributable to owners				
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000
At 1 January 2016		43,544	516,331	390	131,173	(2,266)
Loss for the year		–	–	–	–	–
Other comprehensive (expense)/income for the year:						
Gain on property revaluation, net of tax		–	–	–	30,362	–
Changes in fair value of available-for-sale investments	*19*	–	–	–	–	(425)
Exchange differences related to foreign operations		–	–	–	–	–
Reclassification adjustment for a foreign operation disposed of during the year	*34*	–	–	–	–	–
Share of other comprehensive expenses of:						
Joint ventures		–	–	–	–	–
Associates		–	–	–	–	–
Total comprehensive (expense)/income for the year		–	–	–	30,362	(425)
Issue of shares upon rights issue	*32*	6,532	691,471	–	–	–
Issue of shares upon exercise of share options	*33*	250	27,401	–	–	–
Equity-settled share option arrangements	*33*	–	–	–	–	–
Appropriation to statutory reserve		–	–	–	–	10,748
Acquisition of a subsidiary		–	–	–	–	–
Capital contribution by non-controlling interests		–	–	–	–	–
Acquisition of non-controlling interests		–	–	–	–	–
At 31 December 2016		50,326	1,235,203*	390*	161,535*	(2,691)*

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

of the Company									
Statutory reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
188,482	122,167	43,564	1,870	1,743,603	24,573	4,513,284	7,326,715	89,980	7,416,695
–	–	–	–	–	–	(4,379,631)	(4,379,631)	(21,789)	(4,401,420)
–	–	–	–	–	–	–	30,362	–	30,362
–	–	–	–	–	–	–	(425)	–	(425)
–	–	–	–	–	(122,395)	–	(122,395)	(9,881)	(132,276)
–	–	–	–	–	19,048	–	19,048	–	19,048
–	–	–	–	–	(493)	–	(493)	–	(493)
–	–	–	–	–	(28,277)	–	(28,277)	–	(28,277)
–	–	–	–	–	(132,117)	(4,379,631)	(4,481,811)	(31,670)	(4,513,481)
–	–	–	–	–	–	–	698,003	–	698,003
–	(9,055)	–	–	–	–	–	18,596	–	18,596
–	41,145	–	–	–	–	–	41,145	–	41,145
–	–	–	–	–	(10,748)	–	–	–	–
–	–	–	–	–	–	–	–	4,504	4,504
–	–	–	–	–	–	–	–	4,498	4,498
–	–	–	–	(59,740)	–	–	(59,740)	(71,910)	(131,650)
199,230*	154,257*	43,564*	1,870*	1,683,863*	(107,544)*	122,905*	3,542,908	(4,598)	3,538,310

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash Flows from Operating Activities			
Loss before tax		**(2,702,251)**	(4,356,068)
Adjustments for:			
Bank and other interest income	5	**(41,246)**	(92,137)
Finance costs	7	**26,248**	83,995
Share of losses of joint ventures		**3,765**	138,969
Share of losses of associates		**137,141**	171,877
Elimination of unrealised profits on transactions with associates and a joint venture		**–**	5,230
Realisation of unrealised profits on transactions with a joint venture		**–**	(25,741)
Depreciation	6	**76,880**	72,726
Changes in fair value of investment properties	5	**(5,906)**	(3,549)
Changes in fair values of property, plant and equipment	6	**136,769**	–
Amortisation of patents, licences and computer software	6	**1,462**	3,486
Amortisation of product development costs	6	**13,432**	94,387
Amortisation of prepaid land lease payments	6	**7,633**	7,773
Loss on disposal of items of property, plant and equipment	6	**370**	9,653
Loss on disposal of a parcel of land	6	**46,739**	–
Loss on disposal of investments in associates	6	**6,031**	–
Gain recognised for the contribution of certain buildings and a parcel of land as the investment in a joint venture	5	**–**	(15,321)
Loss/(gain) on loss of control of subsidiaries	34	**534**	(154,089)
(Gain)/loss on disposal of certain interests in a joint venture	6	**(35)**	1,837,114
Gain on disposal of available-for-sale investments	5	**–**	(33,013)
Impairment of doubtful debts	6	**173,000**	249,558
Impairment of investments in associates	6	**453,694**	793,445
Write-down of inventories of net realisable value	6	**53,021**	94,388
Impairment of an unlisted available-for-sale investment	6	**–**	2,365
(Reversal)/recognition of equity-settled share option expense	6	**(28,086)**	41,145
Interest income received in respect of certain available-for-sale investments		**(1,653)**	–
Unrealised exchange difference		**(55,964)**	–
		(1,698,422)	(1,073,807)
Decrease/(increase) in other non-current assets		**15,586**	(2,931)
Decrease in inventories		**958,491**	116,208
Decrease in trade receivables		**206,589**	468,921
Decrease in bills receivable		**70,919**	46,319
Decrease in loans receivable		**320,206**	598,811
Decrease/(increase) in prepayments, deposits and other receivables		**447,552**	(834,320)
Decrease in amounts due from directors		**500**	2,760
Increase in amounts due from associates		**(69,132)**	(11,434)
Decrease/(increase) in amounts due from other related parties		**182,683**	(182,683)
Decrease in trade payables		**(1,055,993)**	(90,670)
Decrease in bills payable		**(1,293,323)**	(1,021)
Increase/(decrease) in other payables and accruals		**148,061**	(449,085)
Increase in amounts due to associates		**1,857**	271,852
(Decrease)/increase in an amount due to a joint venture		**(4,406)**	194,290
(Decrease)/increase in an amount due to other related party		**(51,133)**	51,316
Decrease in other non-current liabilities		**(8,472)**	(3,174)
Cash used in operations		**(1,828,437)**	(898,648)
Tax paid		**(5,210)**	(12,685)
Net cash flows used in operating activities		**(1,833,647)**	(911,333)

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash Flows from Investing Activities			
Interest received		**52,766**	92,137
Loans advanced to certain third parties		**(546,668)**	–
Repayment of loans advanced to certain third parties		**546,668**	–
Investment income from certain available-for-sale investments		**1,653**	–
Purchases of items of property, plant and equipment		**(115,927)**	(135,527)
Proceeds from disposal of items of property, plant and equipment		**7,987**	9,773
Proceeds from disposal of a parcel of land		**45,831**	–
Proceeds from disposal of interests in associates		**4,210**	–
Net inflow of cash in respect of the disposal of subsidiaries	*34*	**192**	119,361
Net inflow of cash in respect of the acquisition of a subsidiary		**–**	2,362
Additions to product development costs	*16*	**–**	(24,696)
Additions to prepaid land lease payments		**–**	(4,220)
Additional investments in associates		**(9,570)**	(41,651)
Additions to available-for-sale investments		**(2,049)**	–
Withdrawal of an available-for-sale investment		**611**	6,751
Cash transferred to restricted bank deposits		**(570,396)**	(1,322,243)
Cash transferred from restricted bank deposits		**832,112**	1,348,865
Repayment/(prepayment) in respect of a potential equity investment		**932,002**	(930,610)
Net cash from/(used in) investing activities		**1,179,422**	(879,698)
Cash Flows from Financing Activities			
Net proceeds from issue of shares upon rights issue	*32*	**–**	698,003
Proceeds from issue of shares upon exercise of share options	*32*	**272**	18,596
Contribution from non-controlling interests		**–**	4,498
Acquisition of non-controlling interests	*18*	**–**	(75,853)
New bank and other borrowings		**915,588**	2,507,884
Repayment of bank and other borrowings		**(1,175,089)**	(2,453,644)
Interest paid		**(19,121)**	(83,995)
Advance received in respect of a proposed issue of convertible bonds	*29*	**58,195**	–
Net cash flows (used in)/generated from financing activities		**(220,155)**	615,489
Net Decrease in Cash and Cash Equivalents		**(874,380)**	(1,175,542)
Cash and cash equivalents at beginning of year		**1,308,082**	2,515,974
Effect of foreign exchange rate changes, net		**17,428**	(32,350)
Cash and Cash Equivalents at End of Year		**451,130**	1,308,082
Analysis of Balances of Cash and Cash Equivalents			
Cash and bank balances	*26*	**451,130**	1,308,082

Notes to Financial Statements

31 December 2017

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 Royal Bank House – 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") are wireless solution and equipment providers in Mainland China. During the year, the Group continued to focus on the production and sale of smartphones, and the provision of wireless application services and financing services.

Information about Subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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	–	60	Sale of mobile phones

Notes to Financial Statements

31 December 2017

1. Corporate and Group Information (Continued)

Information about Subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
Coolpad France	France	EUR197,000	–	100	Sale of mobile phones
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.**	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 Huiying Finance Co., Ltd. ("Huiying")***	PRC/ Mainland China	RMB300,000,000	–	100	Provision of financing services
Coolpad Telecommunication Scientific (Zhengzhou) Co., Ltd. ("Coolpad Telecommunication Zhengzhou") *	PRC/ Mainland China	HK$50,000,000	–	100	Provision of product design and software development, and manufacture and sale of mobile phones

Notes to Financial Statements

31 December 2017

1. Corporate and Group Information (Continued)

Information about Subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhengzhou Coolpad Software Tech Co., Ltd. ("Zhengzhou Coolpad Software")**	PRC/ Mainland China	RMB80,000,000	–	100	Provision of product design and software development for mobile handsets
Zhengzhou Yulong Investment Management Co., Ltd. **	PRC/ Mainland China	RMB100,000	–	60	Investment holding
Nanjing Yulong Investment Management Co., Ltd. ***	PRC/ Mainland China	RMB100,000,000	–	100	Investment holding and property development
Zhengzhou Coolpad Properties Co., Ltd. **	PRC/ Mainland China	RMB100,000	–	60	Investment holding
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
Shenzhen Huihengying Investment Management Co., Ltd. ***	PRC/ Mainland China	RMB250,000	–	100	Investment holding
Shenzhen Juhechengzhang Investment Partnership Co., Ltd. ("Shenzhen Juhechengzhang") **	PRC/ Mainland China	RMB2,300,000	–	100	Investment holding
Hunan Helongsheng Trading Co., Ltd. ("Hunan Helongsheng) **	PRC/ Mainland China	RMB10,000,000	–	60	Sale of mobile phones
Fujian Helongsheng Telecommunication Scientific Co., Ltd. ("Fujian Helongsheng") **	PRC/ Mainland China	RMB4,700,000	–	80	Sale of mobile phones
Coolpad Information Technologies Research Institute (Shenzhen) Co., Ltd. ***	PRC/ Mainland China	RMB15,000,000	–	100	Product design and software development

Notes to Financial Statements

31 December 2017

1. Corporate and Group Information (Continued)

Information about Subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
Dongguan Kule Property Management Co., Ltd.***	PRC/ Mainland China	RMB1,000,000	–	100	Property management
Xian Kumeiyitian Intelligent Technology Co., Ltd.***	PRC/ Mainland China	RMB2,000,000	–	100	Internet information service
Chongqing Yuku Intelligent Technology Co. Ltd.***	PRC/ Mainland China	RMB100,000,000	–	100	Sale of mobile phones
Chongqing Yukuyupai Intelligent Technology Co. Ltd.***	PRC/ Mainland China	RMB100,000,000	–	100	Sale of mobile phones
Shenzhen Yikuaixiu Technology Co. Ltd.***	PRC/ Mainland China	RMB10,000,000	–	100	Repair service
Coolpad Global Inc.	Cayman Islands	US$1	100	–	Investment holding
Coolpad Global Limited	Hong Kong	US$100	–	100	Investment holding

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

** The subsidiaries were registered as co-operative joint ventures under the PRC law.

*** The subsidiaries were registered as limited liability companies under the 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 view of the 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 into the financial statements.

Notes to Financial Statements

31 December 2017

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 certain available-for-sale investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Going Concern Basis

The Group reported a consolidated net loss of HK$2,723 million and a net operating cash outflow of approximately HK$1,834 million for the year ended 31 December 2017. The unrestricted cash and cash equivalent balance decreased by HK$857 million from HK$1,308 million as at 31 December 2016 to HK$451 million as at 31 December 2017.

The Group has taken various measures with an aim to improve the Group's liquidity position during the year, including but not limited to, i) the implementation of cost saving measures to control the daily operation costs; ii) the successful draw-down of new bank loans to replace the bank borrowings to be due and the obtaining of a long term other borrowing to supplement the Group's working capital; iii) the disposal of a certain parcel of land with proceeds of RMB40 million and iv) the receipt of the deposit of HK$58 million related to a proposed arrangement to issue convertible bonds with details stated in the Group's announcement dated 17 October 2017. While, as a result of the operating losses incurred during the year, the Group recorded a net current liabilities position of HK$905 million as compared with the net current assets position of HK$864 million as at 31 December 2016. Certain vendors had filed lawsuits against the Group or requested immediate repayments (note 36).

Notes to Financial Statements

31 December 2017

2.1 Basis of Preparation (Continued)

Going Concern Basis (Continued)

The circumstances stated above have indicated the existence of material uncertainties which gave rise to a significant concern on the Group's ability to continue as a going concern that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

In light of the aforementioned circumstances, the Board has contemplated the Group's available sources of funding and the liquidity position in the coming future and the possibility to improve the Group's performance so as to evaluate whether the Group would have sufficient financial resources to continue its business as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve the Group's financial position which include, but are not limited to, the following:

(i) The Group has been actively negotiating with the banks to secure the renewals of the Group's bank loans when due to meet its liabilities when fall due. In July 2018, one PRC bank had confirmed to the Group in writing regarding its agreement to renew the short-term bank loan with the Group totalling HK$48 million. In September 2018, the Group successfully repaid the outstanding bank loans of HK$589 million as at 31 December 2017.

(ii) The Group and Kingkey Group Company Limited (京基集團有限公司) ("Kingkey Group"), a substantial shareholder of the Group, entered into a loan agreement on 18 May 2018, whereby 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%.

(iii) The Group has accelerated its disposal plan of its long term assets, including the investment properties and land ("the Group Properties"). On 30 July 2018, the Group successfully entered into an agreement to dispose of its 80% equity interest in a wholly-owned subsidiary, under which there is a parcel of land, for a cash consideration of HK$120 million. On 25 July 2018, the Group successfully entered into an agreement to dispose of its investment properties located in Shenzhen, the PRC, for a cash consideration of HK$118 million. Both transactions are expected to be completed by the end of 2018.

(iv) The Group continued to focus its sales efforts on the high growth overseas markets and is revisiting its operating strategies in Mainland China taking into account the potential business opportunities expected to arise from the 5th generation wireless system market in Mainland China, and expand the cooperation with its business partners from various channels, and continue to take measures to tighten cost controls over various production costs and expenses with the aim to attain profitable and positive cash flow operations, including scaling down the operation, human resources optimisation and containment of capital expenditures.

(v) The Group has been actively negotiating with vendors to which the Group has overdue payment obligations in respect of the repayment arrangements and resumption of raw material supply with an aim to mitigate the potential negative effects bought by the delay in production planning and delivery of mobile products to customers.

Notes to Financial Statements

31 December 2017

2.1 Basis of Preparation (Continued)

Going Concern Basis (Continued)

Notwithstanding the above, significant multiple uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through:

(i) the successful obtaining of additional new sources of financing from the banks and from the substantial shareholder as and when needed; (ii) the successful implementation and acceleration of its disposal plan of the Group's properties, including timely execution of definitive sales agreements and timely collection of the disposal proceeds, and the successful deferral of capital expenditures; (iii) the successful implementation of strategic expansion in targeted overseas markets and the cooperation of the telecommunication carriers in Mainland China and the launch of new mobile phone models with business partners and the achievement of sales targets; (iv) the successful launch of the cost reduction campaign so as to generate operating cash inflows; and (v) the successful maintenance of the relationship with suppliers of the Group, in particular those in relation to the Group's mobile phone business so that no actions will be taken by those suppliers against the Group should the Group not be able to meet all the payment obligations on a timely basis.

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 2017. 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 2017. 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.

Notes to Financial Statements

31 December 2017

2.1 Basis of Preparation (Continued)

Basis of Consolidation (Continued)

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.

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 35 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Notes to Financial Statements

31 December 2017

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.

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC) Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC) Interpretation 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Mandatory effective date not yet determined

Other than as further explained below, the directors do not anticipate that the application of the new and revised HKFRSs above will have a material effect on the Group's consolidated financial statements and the disclosure.

Notes to Financial Statements

31 December 2017

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and Measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised. Besides, certain equity available-for-sale financial assets currently carried at cost less impairment will be measured at fair value through other comprehensive income upon adoption of HKFRS 9. Upon initial application of HKFRS 9, any differences between carrying amount and fair value would be adjusted to retained profits as at 1 January 2018.

Notes to Financial Statements

31 December 2017

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

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard.

Notes to Financial Statements

31 December 2017

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

The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018.

The Group's principal activities consist of the production and sale of smartphones, and the provision of wireless application services and financing services. Based on the assessment performed, the adoption of HKFRS 15 will have no significant impact on the Group.

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Notes to Financial Statements

31 December 2017

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

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

31 December 2017

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.

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.

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

Fair Value Measurement

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of Non-financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and certain buildings classified as property, plant and equipment), 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 2017

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. 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 2017

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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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. 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 2017

2.4 Summary of Significant Accounting Policies (Continued)

Investment Properties

Investment properties are interests in buildings, including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property, 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" 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 profit or loss.

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

Intangible Assets (Other than Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value 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.

Research and Development Costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when 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 life of 10 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.

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

Leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and Other Financial Assets

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

Loans and Receivables

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

Available-for-Sale Financial Investments

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

2.4 Summary of Significant Accounting Policies (Continued)

Investments and Other Financial Assets (Continued)

Available-for-Sale Financial Investments (Continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest earned whilst holding the available-for-sale financial investment is reported as interest income and is recognised in the statement of profit or loss and other comprehensive income as other income in accordance with the policy set out for "Revenue recognition" below.

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

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

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

Notes to Financial Statements

31 December 2017

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

Financial Assets Carried at Amortised Cost

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

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (Continued)

Financial Assets Carried at Amortised Cost (Continued)

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

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

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

Assets Carried at Cost

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

Available-for-Sale Financial Investments

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

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

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (Continued)

Available-for-Sale Financial Investments (Continued)

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

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

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or as loans and borrowings, as appropriate.

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company and interest-bearing bank and other borrowings.

Subsequent Measurement

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

Loans and Borrowings

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

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

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 2017

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.

Provisions for product warranties granted by the Group on certain products 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 2017

2.4 Summary of Significant Accounting Policies (Continued)

Income Tax (Continued)

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

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

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

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 and Subsidies

Grants and subsidies 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, which it is intended to compensate, are expensed.

Where the grant or subsidy 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 2017

2.4 Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) service income derived principally from the installation of mobile phone applications and provision of various technical services, which are recognised in the period in which the services are performed, provided that no significant obligations remain with the Group and the collection of the receivables are reasonably assured;

(c) rental income, on a time proportion basis over the lease terms; and

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

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.

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.

Notes to Financial Statements

31 December 2017

2.4 Summary of Significant Accounting Policies (Continued)

Share-based Payments (Continued)

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 2017

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).

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 rates 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.

Notes to Financial Statements

31 December 2017

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:

Operating Lease Commitments – 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, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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.

Notes to Financial Statements

31 December 2017

3. Significant Accounting Judgements and Estimates (Continued)

Judgements (Continued)

Income Tax (Continued)

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$339,101,000 (2016: HK$337,155,000) (note 31).

Investment Properties

The Group's investment properties at fair value are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

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 consolidated financial statements.

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:

Notes to Financial Statements

31 December 2017

3. Significant Accounting Judgements and Estimates (Continued)

Estimation Uncertainty (Continued)

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 2017, the best estimate of the carrying amount of provision for product warranties was HK$27,133,000 (2016: HK$34,398,000) (note 29).

Development Costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2017, the best estimate of the carrying amount of capitalised product development costs was HK$5,918,000 (2016: HK$18,551,000) (note 16).

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 2017, the carrying amount of inventories was approximately HK$395,569,000 (2016: HK$1,395,870,000) after netting off the allowance for inventories of approximately HK$234,426,000 (2016: HK$257,933,000).

Impairment of Trade Receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectibility and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. At 31 December 2017, the provision recognised for trade receivables was HK$308,312,000 (2016: HK$267,597,000) (note 21).

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 2017 was HK$404,416,000 (2016: HK$289,971,000). Further details are set out in note 31 to the financial statements.

Notes to Financial Statements

31 December 2017

3. Significant Accounting Judgements and Estimates (Continued)

Estimation Uncertainty (Continued)

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. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions at arm's length of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate to calculate the present values of those cash flows. Further details are set out in note 18 to the financial statements.

Provision for compensation to suppliers

The Group made provision for the compensation to certain 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 vendors affected. At 31 December 2017, the amount of the provision for compensation to suppliers was approximately HK$243,077,000 (2016: Nil).

4. Operating Segment Information

For management purposes, the Group is organised into business units based on its products and services and has three 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; and

(c) the financing service segment engages in the provision of a range of financing services in Mainland China.

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 loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, gain on loss of control of subsidiaries, loss on disposal of an investment in a joint venture, impairment of investments in associates, finance costs and share of losses of associates and joint ventures as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude investments in joint ventures, investments in associates, available-for-sale investments, deferred tax assets, amounts due from directors, an amount due from a joint venture, amounts due from associates, amounts due from other related parties, pledged deposits and cash and cash equivalents 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, an amount due to other related party, 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 2017

4. Operating Segment Information (Continued)

Year ended 31 December 2017

	Mobile phone HK$'000	Property investment HK$'000	Financing service HK$'000	Total HK$'000
Sales to external customers	3,349,991	–	28,086	3,378,077
Other revenue and gains	309,689	16,505	–	326,194
Total	3,659,680	16,505	28,086	3,704,271
Segment results	(2,141,391)	17,777	1,499	(2,122,115)
Reconciliation:				
Interest income				41,246
Loss on loss of control of a subsidiary				(534)
Impairment of investments in associates				(453,694)
Finance costs				(26,248)
Share of losses of joint ventures				(3,765)
Share of losses of associates				(137,141)
Loss before tax				(2,702,251)
Segment assets	3,115,024	124,375	402,380	3,641,779
Reconciliation:				
Investments in joint ventures				106,677
Investments in associates				448,468
Corporate and other unallocated assets				653,906
Total assets				4,850,830
Segment liabilities	2,630,191	1,381	–	2,630,191
Reconciliation:				
Corporate and other unallocated liabilities				1,429,842
Total liabilities				4,061,414
Other segment information:				
Impairment of doubtful debts	173,000	–	–	173,000
Write-down of inventories to net realisable value	53,021	–	–	53,021
Fair value gain on investment properties	–	5,906	–	5,906
Product warranty provision	45,166	–	–	45,166
Depreciation and amortisation	99,382	–	25	99,407
Capital expenditure*	139,998	–	–	139,998

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

Notes to Financial Statements

31 December 2017

4. Operating Segment Information (Continued)

Year ended 31 December 2016

	Mobile phone HK$'000	Property investment HK$'000	Financing service HK$'000	Total HK$'000
Sales to external customers	7,864,075	–	105,402	7,969,477
Other revenue and gains	346,301	11,451	–	357,752
Total	8,210,376	11,451	105,402	8,327,229
Segment results	(1,637,221)	10,503	63,897	(1,562,821)
Reconciliation:				
Interest income				92,137
Gain on loss of control of a subsidiary				154,089
Loss on disposal of an investment in a joint venture				(1,837,114)
Impairment of investments in associates				(793,445)
Finance costs				(83,995)
Share of losses of joint ventures				(138,969)
Share of losses of associates				(171,877)
Corporate and other unallocated expenses				(14,073)
Loss before tax				(4,356,068)
Segment assets	6,194,969	109,054	490,133	6,794,156
Reconciliation:				
Investments in joint ventures				108,288
Investments in associates				1,050,857
Corporate and other unallocated assets				1,901,103
Total assets				9,854,404
Segment liabilities	4,719,120	1,619	500	4,721,239
Reconciliation:				
Corporate and other unallocated liabilities				1,594,855
Total liabilities				6,316,094
Other segment information:				
Impairment of trade receivables	249,558	–	–	249,558
Write-down of inventories to net realisable value	94,388	–	–	94,388
Fair value gain on investment properties	–	3,549	–	3,549
Product warranty provision	73,423	–	–	73,423
Depreciation and amortisation	177,995	–	377	178,372
Capital expenditure*	177,139	–	–	177,139

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

Notes to Financial Statements

31 December 2017

4. Operating Segment Information (Continued)

Geographical Information

(a) Revenue from External Customers

	2017 HK$'000	2016 HK$'000
Mainland China	**1,476,597**	5,379,788
Overseas	**1,901,480**	2,589,689
	3,378,077	7,969,477

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

(b) Non-current Assets

	2017 HK$'000	2016 HK$'000
Mainland China	**1,923,781**	2,664,675
Overseas	**6,098**	14,590
	1,929,879	2,679,265

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 a major customer individually amounting to 10% or more of the Group's revenue is as follows:

	Operating segment	2017 HK$'000	2016 HK$'000
Customer A	Mobile phone	**N/A**	1,038,170
Customer B	Mobile phone	**1,142,714**	N/A

5. Revenue, Other Income and Gains

Revenue represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns, sales incentives and trade discounts, service income received and receivable from the provision of wireless application service, and the financing service income from the provision of financing service.

Notes to Financial Statements

31 December 2017

5. Revenue, Other Income and Gains (Continued)

An analysis of revenue, other income and gains is as follows:

	Notes	2017 HK$'000	2016 HK$'000
Revenue			
Sale of mobile phones and related accessories		**3,263,892**	7,661,734
Wireless application service income		**86,099**	202,341
Financing service income		**28,086**	105,402
		3,378,077	7,969,477
Other income and gains			
Bank interest income		**6,722**	41,897
Other interest income*		**34,524**	50,240
Government grants and subsidies**		**143,434**	250,314
Gross rental income		**10,599**	7,902
Fair value gain on investment properties	*14*	**5,906**	3,549
Gain recognised for the contribution of certain buildings and a parcel of land as the investment in a joint venture	*17*	**–**	15,321
Gain on disposal of an available-for-sale investment		**–**	33,013
Change in foreign exchange difference, net		**59,836**	–
Various technical services income		**69,095**	19,558
Others		**37,324**	28,095
		367,440	449,889

* Other interest income comprised a sum of interest surcharge of approximately HK$18,051,000 in connection with certain prepayments for a potential equity investment (note 24 (i)). Details of the prepayments are set out in note 24 (i) to the financial statements.

The remaining interest income of approximately HK$16,473,000 comprised i) interest income of HK$6,470,000 representing the surcharge pertaining to a prepayment of RMB300 million (HK$335,379,000) made to a vendor for the procurement of mobile phone components in December 2016 (note 24 (ii)). The procurement arrangement was subsequently cancelled in January 2017 and the prepayment was accordingly refunded to the Group in February and March 2017; and ii) a sum of interest surcharge of HK$10,003,000 in connection with certain interest-bearing advances made to certain third parties of the Group, the principal and the interest surcharge of which were fully settled and received during the year.

** 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 2017

6. Loss Before Tax

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold		**3,643,459**	7,520,606
Depreciation	*13*	**76,880**	72,726
Amortisation of patents, licences and computer software*	*16*	**1,462**	3,486
Amortisation of prepaid land lease payments	*15*	**7,633**	7,773
Research and development costs*:			
Product development costs amortised	*16*	**13,432**	94,387
Current year expenditure		**401,876**	458,417
		415,308	552,804
Operating lease rental		**34,682**	21,974
Auditor's remuneration		**3,884**	5,683
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**509,669**	560,650
Staff welfare expenses		**27,214**	43,756
Pension scheme contributions (defined contribution scheme)		**40,188**	52,307
Equity-settled share option expense^	*33*	**(28,086)**	41,145
		548,985	697,858
(Gain)/loss on disposal of certain interests in a joint venture		**(35)**	1,837,114
Impairment of doubtful debts#		**173,000**	249,558
Impairment of an unlisted available-for-sale investment#	*19*	**–**	2,365
Impairment of investments in associates	*18*	**453,694**	793,445
Loss on revaluation of property, plant and equipment#	*13*	**136,769**	–
Loss on disposal of items of property, plant and equipment#		**370**	9,653
Loss on disposal of land use right#		**46,739**	–
Loss on disposal of associates#		**6,031**	–
Write-down of inventories to net realisable value&		**53,021**	94,388
Direct operating expenses arising on rental-earning investment properties		**1,272**	948
Product warranty provision&	*29*	**45,166**	73,423
Foreign exchange differences, net#		**(59,836)**	21,769

* Included in "Administrative expenses" in consolidated profit or loss and other comprehensive income

& Included in "Cost of sales" in consolidated profit or loss and other comprehensive income

Included in "Other expenses" in consolidated profit or loss and other comprehensive income

^ The amount represents the net effect of i) a reversal of equity-settled share option expenses recognised in prior years as a result of forfeiture of certain share option granted amounting to HK$55,317,000; and ii) recognition of equity-settled share option expenses amounting to HK$27,231,000.

Notes to Financial Statements

31 December 2017

7. Finance Costs

	2017 HK$'000	2016 HK$'000
Interest on:		
Bank and other borrowings	**22,634**	57,435
Discounted bills receivable	**3,614**	26,560
	26,248	83,995

There were no capitalised interest expenses during the year (2016: Nil).

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:

	2017 HK$'000	2016 HK$'000
Fees	**490**	380
Other emoluments:		
Salaries, allowances and benefits in kind	**8,444**	12,787
Performance related bonuses	**–**	1,505
Equity-settled share option expense	**(13,982)**	11,775
Pension scheme contributions	**64**	82
	(5,474)	26,149
	(4,984)	26,529

Notes to Financial Statements

31 December 2017

8. Directors' Remuneration (Continued)

(a) Independent Non-Executive Directors

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

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2017			
Dr. HUANG Dazhan	**160**	**–**	**160**
Mr. XIE Weixin	**170**	**–**	**170**
Mr. CHAN King Chung	**160**	**–**	**160**
	490	**–**	**490**
2016			
Dr. HUANG Dazhan	120	–	120
Mr. XIE Weixin	140	–	140
Mr. CHAN King Chung	120	–	120
	380	–	380

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

(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
2017					
Mr. JIANG Chao	**3,739**	**–**	**–**	**39**	**3,778**
Mr. LI Bin&	**–**	**–**	**(13,982)**	**–**	**(13,982)**
Mr. JIA Yueting**	**734**	**–**	**–**	**–**	**734**
Mr. LIU Hong***	**1,363**	**–**	**–**	**–**	**1,363**
Mr. ZHANG Wei&&	**401**	**–**	**–**	**–**	**401**
Mr. LIU Jiangfeng#	**1,411**	**–**	**–**	**25**	**1,436**
Mr. MA Lin*	**25**	**–**	**–**	**–**	**25**
Mr. WANG Junmin*	**25**	**–**	**–**	**–**	**25**
Mr. YANG Yongqiang*	**25**	**–**	**–**	**–**	**25**
Mr. Abulikemu Abulimiti#	**721**	**–**	**–**	**–**	**721**
	8,444	**–**	**(13,982)**	**64**	**(5,474)**

Notes to Financial Statements

31 December 2017

8. Directors' Remuneration (Continued)

(b) Executive Directors and Non-Executive Directors (Continued)

	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
2016					
Mr. GUO Deying	3,245	–	–	14	3,259
Mr. JIANG Chao	2,806	488	–	21	3,315
Mr. LI Bin	3,060	1,017	11,775	35	15,887
Mr. JIA Yueting	1,169	–	–	–	1,169
Mr. LIU Hong	1,169	–	–	–	1,169
Mr. LIU Jiangfeng	900	–	–	12	912
Mr. Abulikemu Abulimiti	438	–	–	–	438
	12,787	1,505	11,775	82	26,149

Resigned as executive directors on 31 August 2017
* Appointed as non-executive directors on 17 November 2017 and resigned as non-executive directors on 5 January 2018
** Resigned as an executive director on 17 November 2017
*** Appointed as the chairman on 17 November 2017, resigned as an executive director on 19 January 2018 and resigned as a director on 3 April 2018
& Resigned as an executive director on 1 March 2017
&& Appointed as an executive director on 20 March 2017 and resigned as an executive director on 5 January 2018

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included two directors (2016: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group 2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**4,441**	6,851
Performance related bonuses	**–**	1,370
Equity-settled share option expense	**3,001**	12,450
Pension scheme contributions	**79**	167
	7,521	20,838

Notes to Financial Statements

31 December 2017

9. Five Highest Paid Employees (Continued)

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

	2017	2016
HK$1,000,000 – HK$1,500,000	**1**	–
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**2**	–
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**–**	–
HK$5,000,001 – HK$5,500,000	**–**	1
HK$5,500,001 – HK$6,000,000	**–**	2
	3	4

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 (2016: 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 operates, based on existing legislation, interpretations and practices in respect thereof.

	2017	2016
	HK$'000	HK$'000
Current		
Charge for the year	**22,543**	17,723
(Overprovision)/underprovision in prior years	**(615)**	3,552
Deferred *(note 31)*	**(1,103)**	24,077
Total tax charge for the year	**20,825**	45,352

Notes to Financial Statements

31 December 2017

10. Income Tax Expense (Continued)

A reconciliation of the tax expense applicable to loss 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:

	2017 HK$'000	2016 HK$'000
Loss before tax	**(2,702,251)**	(4,356,068)
Tax at the statutory tax rate	**(675,563)**	(1,089,017)
Effect of different tax rates for certain group entities	**185,034**	308,693
Adjustments in respect of current tax of previous periods	**(615)**	3,552
Losses attributable to joint ventures	**16,069**	27,770
Losses attributable to associates	**941**	23,180
Income not subject to tax	**(248)**	(10,886)
Expenses not deductible for tax	**73,157**	441,053
Additional deduction of research and development expenses	**(24,322)**	(22,736)
Temporary differences not recognised	**28,750**	(52,200)
Tax losses utilised from prior periods	**–**	(1,879)
Tax losses not recognised	**417,622**	417,822
Tax charge at the Group's effective rate	**20,825**	45,352

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) Shenzhen Coolpad, the Company's wholly-owned subsidiary, was reassessed and recognised as a high-technology enterprise in September 2014 and was subject to CIT at a rate of 15% for three years till September 2017. Therefore, Shenzhen Coolpad was subject to CIT at a rate of 25% (2016: 15%) for the year ended 31 December 2017.

(b) Yulong Shenzhen, the Company's wholly-owned subsidiary, was recognised as a high-technology enterprise in October 2017 and is subject to CIT at a rate of 15% for three years till 2019. Therefore, Yulong Shenzhen was subject to CIT at a rate of 15% (2016: 15%) for the year ended 31 December 2017.

Notes to Financial Statements

31 December 2017

10. Income Tax Expense (Continued)

(c) Xi'an Coolpad, the Company's wholly-owned subsidiary, was assessed and recognised as a high-technology enterprise in December 2017, and is subject to CIT at a rate of 15% for the three years from 2017 to 2019. Therefore, Xi'an Coolpad was subject to CIT at a rate of 15% (2016: 15%) for the year ended 31 December 2017.

(d) SZ Coolpad Technologies, the Company's wholly-owned subsidiary, was recognised as a software enterprise and therefore was exempted from CIT for each of the two years ended 31 December 2013 and 2014 and was entitled to a 50% reduction in the applicable tax rate for CIT for the three years ended 31 December 2017. In this regard, SZ Coolpad Technologies was subject to CIT at a rate of 12.5% (2016: 12.5%) for the year ended 31 December 2017.

(e) Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad"), the Company's wholly-owned subsidiary, was established in 2014 and assessed as a software enterprise 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. Nanjing Coolpad started its tax concession period from year 2015 as it began to make profit in that year. In this regard, Nanjing Coolpad was subject to CIT at a rate of 12.5% (2016: exempted from CIT) for the year ended 31 December 2017.

11. Dividend

The directors did not recommend the payment of final dividends for the years ended 31 December 2017 and 2016.

12. Loss Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,033,246,581 (2016: 4,876,031,862) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share options outstanding had no dilution effect on the basic loss per share amount presented.

Notes to Financial Statements

31 December 2017

13. 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 2017						
Cost or valuation:						
At 1 January 2017	627,455	19,776	263,872	19,341	384,565	1,315,009
Additions	–	–	25,368	2,267	112,363	139,998
Deficit on revaluation*	(173,828)	–	–			(173,828)
Disposals	–	–	(26,268)	(1,651)	(2,842)	(30,761)
Transfers	7,715	894	606	–	(9,215)	–
Exchange realignment	37,842	1,419	18,359	1,349	30,670	89,639
At 31 December 2017	499,184	22,089	281,937	21,306	515,541	1,340,057
Accumulated depreciation and impairment:						
At 1 January 2017	115,378	17,781	172,703	11,613	–	317,475
Depreciation provided during the year	33,281	764	39,708	3,127	–	76,880
Disposals	–	–	(21,521)	(883)	–	(22,404)
Exchange realignment	9,321	1,276	12,742	897	–	24,236
At 31 December 2017	157,980	19,821	203,632	14,754	–	396,187
Net book value:						
At 31 December 2017	341,204	2,268	78,305	6,552	515,541	943,870

* Deficit on revaluation for the year ended 31 December 2017 included a revaluation deficit of HK$189,205,000 of two industrial buildings. On 16 January 2017, management of the Group approved the reconstruction plan of certain properties located in Shenzhen (the "Reconstruction Plan"). Two industrial buildings, classified as property, plant and equipment ("PPE"), are scheduled to be demolished for reconstruction in 2018, which resulted in a significant decrease in the fair values of these two buildings at 31 December 2017. The Group recorded a revaluation reserve of HK$52,436,000 in respect of these buildings. As the revaluation reserve of these buildings was insufficient to cover their current year revaluation deficit of HK$189,205,000, the excess of the deficit, amounting to HK$136,769,000, has been charged to profit or loss for the year (note 6).

Notes to Financial Statements

31 December 2017

13. 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 2016						
Cost or valuation:						
At 1 January 2016	619,986	21,115	272,110	27,472	341,273	1,281,956
Additions	–	–	18,854	–	133,589	152,443
Surplus on revaluation	37,135	–	–	–	–	37,135
Disposals	(2,195)		(11,887)	(6,692)	(12,732)	(33,506)
Contribution as investment in a joint venture	–	–	–	–	(36,574)	(36,574)
Transfers	13,997	–	2,369	–	(16,366)	–
Exchange realignment	(41,468)	(1,339)	(17,574)	(1,439)	(24,625)	(86,445)
At 31 December 2016	627,455	19,776	263,872	19,341	384,565	1,315,009
Accumulated depreciation:						
At 1 January 2016	92,773	20,053	153,243	14,751	–	280,820
Depreciation provided during the year	29,796	29	39,713	3,188	–	72,726
Disposals	–	–	(8,579)	(5,501)	–	(14,080)
Exchange realignment	(7,191)	(2,301)	(11,674)	(825)	–	(21,991)
At 31 December 2016	115,378	17,781	172,703	11,613	–	317,475
Net book value:						
At 31 December 2016	512,077	1,995	91,169	7,728	384,565	997,534

At 31 December 2017, the Group had yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$68,749,399 (2016: HK$52,702,000).

The Group's buildings were revalued individually at the end of the reporting period by Debenham Tie Leung Limited, independent professionally qualified valuers, at an aggregate open market value of HK$325,291,000 (2016: HK$496,438,000) as at 31 December 2017 based on their existing use. As a result, the Group recorded a revaluation deficit of HK$173,828,000 for the current year (2016: revaluation surplus HK$37,135,000), the corresponding side of which was charged to other comprehensive expense of HK$37,135,000 and profit or loss of HK$136,769,000.

At 31 December 2017, certain of the Group's buildings and prepaid land lease payments with a net carrying amount of approximately HK$155,584,000 (2016: HK$200,786,000) were pledged to secure general banking facilities granted to the Group (note 30(a)).

Notes to Financial Statements

31 December 2017

13. 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 2017 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Recurring fair value measurement for:				
Industrial properties	**–**	**–**	**325,291**	**325,291**

	Fair value measurement at 31 December 2016 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Industrial properties	–	–	496,438	496,438

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.

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

	Industrial properties	
	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**496,438**	523,892
Transfer from construction in progress	**7,716**	594
Disposal	**–**	(2,195)
Depreciation provided during the year	**(32,490)**	(29,497)
(Deficit)/surplus on revaluation recognised in other comprehensive income	**(37,059)**	37,135
Deficit on revaluation recognised in other expenses in profit or loss	**(136,769)**	–
Exchange realignment	**27,455**	(33,491)
Carrying amount at 31 December	**325,291**	496,438

Notes to Financial Statements

31 December 2017

13. Property, Plant and Equipment (Continued)

Fair Value Hierarchy (Continued)

Below is a summary of the valuation technique used and the key inputs to the valuation of buildings:

	Valuation technique	Significant unobservable inputs	**Range weighted average 2017**	Range weighted average 2016
Industrial properties	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.)	**a. 1,061 to 6,317**	a. 1,036 to 5,928
		b. Administrative expense rate	**b. 3%**	b. 3%
		c. Unpredictable expense rate	**c. 3%**	c. 3%
		d. Rate of newness	**d. 0.83%*, 91% to 98%**	d. 88% to 100%

* 0.83% was applied to the properties under the Reconstruction Plan.

The Group has determined that the highest and best use of the buildings at the measurement date would be to convert those properties for residential 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.

14. Investment Properties

	Note	**2017 HK$'000**	2016 HK$'000
Carrying amount at 1 January		**106,427**	110,011
Net gain from a fair value adjustment recognised in profit or loss	*5*	**5,906**	3,549
Exchange realignment		**7,680**	(7,133)
Carrying amount at 31 December		**120,013**	106,427

Notes to Financial Statements

31 December 2017

14. Investment Properties (Continued)

The Group's investment properties consist of certain commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$120,013,000. 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.

Fair Value Hierarchy

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

	Fair value measurement at 31 December 2017 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**120,013**	**120,013**

	Fair value measurement at 31 December 2016 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	–	–	106,427	106,427

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 (2016: Nil).

Notes to Financial Statements

31 December 2017

14. Investment Properties (Continued)

Fair Value Hierarchy (Continued)

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

	Commercial properties HK$'000
Carrying amount at 1 January 2016	110,011
Net gain from a fair value adjustment recognised in profit or loss	3,549
Exchange realignment	(7,133)
Carrying amount at 31 December 2016 and 1 January 2017	**106,427**
Net gain from a fair value adjustment recognised in profit or loss	**5,906**
Exchange realignment	**7,680**
Carrying amount at 31 December 2017	**120,013**

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 weighted average 2017**	Range weighted average 2016
Commercial properties	Direct comparison approach	a. Market monthly rental (RMB/sq.m.)	**a. 155**	a. 148
		b. Discounted rate	**b. 5% to 5.5%**	b. 5.0% to 5.5%
		c. Market unit sale rate (RMB/sq.m.)	**c. 27,000 to 31,600**	c. 26,500 to 28,600

The direct comparison approach requires a valuation by making reference to comparable sales evidence as available in the relevant market, and, where appropriate, using the investment method by capitalising the net rental income derived from the existing tenancies with due allowance for the reversionary potential of the respective properties.

Notes to Financial Statements

31 December 2017

15. Prepaid Land Lease Payments

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**356,554**	445,578
Recognised during the year *(note 6)*	**(7,633)**	(7,773)
Contribution as an investment in a joint venture	**–**	(55,782)
Disposal#	**(92,570)**	–
Exchange realignment	**21,289**	(25,469)
Carrying amount at 31 December	**277,640**	356,554
Current portion included in prepayments, deposits and other receivables *(note 24)*	**(6,469)**	(7,908)
Non-current portion	**271,171**	348,646

A parcel of land was disposed of during the year resulting in a loss of HK$46.7 million (note 6).

Notes to Financial Statements

31 December 2017

16. Intangible Assets

	Product development costs HK$'000	Patents and licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2017				
Cost:				
At 1 January 2017	**432,389**	**117,189**	**11,927**	**561,505**
Exchange realignment	**29,234**	**8,215**	**836**	**38,285**
At 31 December 2017	**461,623**	**125,404**	**12,763**	**599,790**
Accumulated amortisation:				
At 1 January 2017	**413,838**	**115,921**	**5,295**	**535,054**
Provided during the year	**13,432**	**231**	**1,231**	**14,894**
Exchange realignment	**28,435**	**8,135**	**417**	**36,987**
At 31 December 2017	**455,705**	**124,287**	**6,943**	**586,935**
Net carrying amount:				
At 31 December 2017	**5,918**	**1,117**	**5,820**	**12,855**
31 December 2016				
Cost:				
At 1 January 2016	435,420	125,124	12,735	573,279
Additions	24,696	–	–	24,696
Exchange realignment	(27,727)	(7,935)	(808)	(36,470)
At 31 December 2016	432,389	117,189	11,927	561,505
Accumulated amortisation:				
At 1 January 2016	344,469	122,175	3,690	470,334
Provided during the year	94,387	1,563	1,923	97,873
Exchange realignment	(25,018)	(7,817)	(318)	(33,153)
At 31 December 2016	413,838	115,921	5,295	535,054
Net carrying amount:				
At 31 December 2016	18,551	1,268	6,632	26,451

Notes to Financial Statements

31 December 2017

17. Investments in Joint Ventures

	2017 HK$'000	2016 HK$'000
Share of net assets	**98,359**	99,970
Goodwill	**8,318**	8,318
	106,677	108,288

Particulars of the Group's material joint venture as at 31 December 2017 are as follows:

Name	Place of registration and business	Fully paid-up capital	Percentage of ownership interest attributable to the Group	Principal activity
Dongguan Coolpad Tian'an Investment Development Co., Ltd. ("Dongguan Tian'an")	PRC	RMB136,000,000	50	Investment holding and property development

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.

The Group's shareholding in this joint venture is held through a wholly-owned subsidiary of the Company.

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 2017

17. Investments in Joint Ventures (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:

	31 December 2017 HK$'000	31 December 2016 HK$'000
Cash and cash equivalents	**4,194**	5,937
Properties under development	**80,554**	24,023
Other current assets	**222,886**	40,431
Current assets	**307,634**	70,391
Non-current assets	**132,394**	123,399
Other payables and accruals	**(243,181)**	(2,583)
Other current liabilities	**(129)**	(79)
Current liabilities	**(243,310)**	(2,662)
Net assets	**196,718**	191,128
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	**98,359**	95,564
Goodwill	**8,318**	8,318
Carrying amount of the investment	**106,677**	103,882

	31 December 2017 HK$'000	Period from 21 June 2016 to 31 December 2016 HK$'000
Revenue	**–**	–
Loss for the year/period	**(7,530)**	(5,886)
Other comprehensive income/(expense) for the year/period	**13,120**	(11,009)
Total comprehensive income/(expense) for the year/period	**5,590**	(16,895)

Notes to Financial Statements

31 December 2017

17. Investments in Joint Ventures (Continued)

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

	2017 HK$'000	2016 HK$'000
Share of the joint venture's loss and total comprehensive expenses for the year	**–**	–
Carrying amount of the Group's investment in the joint venture	**–**	4,406

18. Investments in Associates

	2017 HK$'000	2016 HK$'000
Share of net assets	**493,897**	642,592
Goodwill	**1,201,710**	1,201,710
	1,695,607	1,844,302
Impairment*	**(1,247,139)**	(793,445)
	448,468	1,050,857

* The estimated recoverable amount of the Group's investments in Coolpad E-commerce Inc. ("Coolpad E-commerce") and its subsidiaries (collectively, "Coolpad E-commerce Group") was determined with reference to the cash flows expected to be generated by Coolpad E-commerce Group. Based on the Group's cash flow projection of Coolpad E-commerce Group, an impairment of HK$434,064,000 was provided for the year. The pre-tax discount rate applied to the cash flow projection of Coolpad E-commerce Group was 23.70%.

An impairment of HK$19,630,000 to investments in other associates was provided as at 31 December 2017 based on the recoverable amount of the investments.

The Group's balance with associates is disclosed in note 39(a) to the financial statements.

Notes to Financial Statements

31 December 2017

18. Investments in Associates (Continued)

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 activity
Coolpad E-commerce	Cayman Islands	US$20	25	Investment holding
Shenzhen Coolpad Mobile Tech Co., Ltd. ("Coolpad Mobile")	PRC	RMB443,790,000	13.52	Sale of mobile phones

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

	31 December 2017 HK$'000	31 December 2016 HK$'000
Cash and cash equivalents	**920,824**	1,526,391
Pledged deposits	**269,410**	271,986
Other current assets	**1,363,749**	767,431
Current assets	**2,553,983**	2,565,808
Non-current assets	**30,115**	38,772
Trade payables	**(571,482)**	(301,930)
Other current liabilities	**(726,131)**	(580,718)
Total liabilities	**(1,297,613)**	(882,648)
Net assets	**1,286,485**	1,721,932
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	**321,621**	430,483
Goodwill	**1,201,710**	1,201,710
Impairment	**(1,195,031)**	(760,967)
Carrying amount of the investment	**328,300**	871,226

Notes to Financial Statements

31 December 2017

18. Investments in Associates (Continued)

Coolpad E-commerce Group (Continued)

	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000
Revenue	**1,932,307**	2,769,128
Loss for the year	**(386,068)**	(831,478)
Other comprehensive expense for the year	**87,521**	(103,552)
Total comprehensive expense for the year	**(298,547)**	(935,030)

Coolpad Mobile Group

Coolpad Mobile Group is engaged in mobile phone trading, the provision of product design and software development for mobile handsets. Coolpad Mobile Group was a then 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 10 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 view of the 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 2017

18. Investments in Associates (Continued)

Coolpad Mobile Group (Continued)

	31 December 2017 HK$'000	31 December 2016 HK$'000
Cash and cash equivalents	**9,153**	162,197
Other current assets	**264,617**	626,475
Current assets	**273,770**	788,672
Non-current assets	**108,173**	5,243
Other payables and accruals	**(128,304)**	(396,990)
Other current liabilities	**(309,527)**	(232,406)
Current liabilities	**(437,831)**	(629,396)
Non-current liabilities	**–**	(10,951)
Net (liabilities)/assets	**(55,888)**	153,568
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**13.52%**	20%
Group's share of net assets of the associate	**(7,556)**	30,714
Unrealised profits on the transactions with Coolpad Mobile Group	**–**	(22)
Provision for additional losses *(note)*	**7,556**	–
Carrying amount of the investment	**–**	30,692

Note:
Pursuant to the Article & Association of Coolpad Mobile Group, the Group has the obligation to take up the excessive losses of HK$7,556,000 and therefore, the Group made a provision to share of the additional losses therefrom.

	31 December 2017 HK$'000	Period from 12 December 2016 to 31 December 2016 HK$'000
Revenue	**519,170**	52,851
Loss for the year/period	**(398,471)**	(10,564)
Other comprehensive income for the year/period	**(1,797)**	457
Total comprehensive expense for the year/period	**(400,268)**	(10,107)

Notes to Financial Statements

31 December 2017

18. Investments in Associates (Continued)

Other Individually Immaterial Associates

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

	2017 HK$'000	2016 HK$'000
Share of associates' losses and total comprehensive expenses for the year	**(956)**	(29,234)
Aggregate carrying amount of the Group's investments in associates	**120,168**	148,939

19. Available-for-sale Investments

	2017 HK$'000	2016 HK$'000
Listed equity investments, at fair value:	**2,735**	2,358
Unlisted equity investments, at cost	**50,720**	47,244
Impairment	**(18,534)**	(18,534)
	32,186	28,710
	34,921	31,068

During the year, the net loss in respect of the Group's available-for-sale investments recognised in other comprehensive expense amounted to HK$377,200 (2016: HK$425,000).

The above equity investments are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2017, certain unlisted equity investments with a carrying amount of HK$32,186,000 (2016: HK$28,710,000) were stated at cost less impairment because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

20. Inventories

	2017 HK$'000	2016 HK$'000
Raw materials	**165,724**	709,982
Work in progress	**57,773**	259,953
Finished goods	**172,072**	425,935
	395,569	1,395,870

Notes to Financial Statements

31 December 2017

21. Trade Receivables

	2017 HK$'000	2016 HK$'000
Trade receivables	**924,790**	1,128,196
Impairment	**(308,312)**	(267,597)
	616,478	860,599

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, extending up to 120 days for some overseas customers. 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:

	2017 HK$'000	2016 HK$'000
Within 3 months	**512,222**	778,273
4 to 6 months	**111,893**	38,942
7 to 12 months	**46,341**	153,962
Over 1 year	**254,334**	157,019
	924,790	1,128,196
Less: Impairment	**(308,312)**	(267,597)
	616,478	860,599

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

	2017 HK$'000	2016 HK$'000
At 1 January	**267,597**	19,250
Impairment losses recognised *(note 6)*	**40,510**	249,558
Amounts written off as uncollectible	**(4,071)**	(44)
Exchange realignment	**4,276**	(1,167)
	308,312	267,597

Notes to Financial Statements

31 December 2017

21. Trade Receivables (Continued)

Included in the above provision for impairment of trade receivables is the provision for individually impaired trade receivables of HK$308,312,000 (2016: HK$267,597,000) with a carrying amount before provision of HK$416,896,000 (2016: HK$571,475,000).

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**451,740**	487,547
Less than 3 months past due	**55,084**	17,191
More than 3 months past due	**1,070**	51,983
	507,894	556,721

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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:

	2017 HK$'000	2016 HK$'000
Within 3 months	**9,101**	82,491
Over 3 months	**2,471**	–
	11,572	82,491

Bills receivable are non-interest-bearing.

At 31 December 2017 and 2016, the Group did not have any past due or impaired bills receivable.

Notes to Financial Statements

31 December 2017

23. Loans Receivable

	2017 HK$'000	2016 HK$'000
Loans receivable	**82,976**	394,546
Non-current portion	**(18,266)**	(25,001)
Short-term loans receivable	**64,710**	369,545

Huiying, a wholly-owned subsidiary of the Group, was established in 2014 and engaged in the provision of financing service. Those loans receivable bore interest at rates ranging from 5% to 13% per annum (2016: 5.6% to 18%). 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$67,279,000 (2016: HK$60,993,000) as at 31 December 2017, which were secured by the pledge of collateral and guarantees by certain independent third parties, the loans receivable as at 31 December 2017 were unsecured. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of those loans receivable without the pledge of collateral and guarantees taking into account the financial positions of the corresponding borrowers and their good track record of the related interest collections.

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:

	2017 HK$'000	2016 HK$'000
Within 3 months	**–**	77,608
4 to 6 months	**636**	13,939
7 to 12 months	**59,815**	12,186
Over 1 year	**22,525**	290,813
	82,976	394,546

All of the loans receivable are neither past due nor impaired. These loans were made to a number of diversified borrowers for whom there was no recent history of default.

Notes to Financial Statements

31 December 2017

24. Prepayments, Deposits and Other Receivables

	2017 HK$'000	2016 HK$'000
Prepayment for a potential equity investment (i)	–	930,610
Accrued interest receivable (i)	–	11,503
Prepayment for inventory procurement (ii)	–	335,379
Prepayments for other suppliers	**45,164**	30,030
Deposits and other receivables	**79,086**	140,501
Deductible input VAT	**1,052,979**	1,120,950
Prepaid expenses	**3,577**	4,711
Current portion of prepaid land lease payments *(note 15)*	**6,469**	7,908
	1,187,275	2,581,592
Non-current portion	**(26,825)**	(41,062)
	1,160,450	2,540,530

Notes:

(i) The balance as at 31 December 2016 represented a sum of prepayments paid to a company ("Company A") in connection with a potential equity investment in a company incorporated in the United States of America (the "Target Company") with its principal activities engaging in the manufacture of electric vehicles. Details of the transaction are stated in the 2016 Annual Report of the Group.

In January 2017, the Group was informed by Company A that the seller owning the equity interest of the Target Company decided to cancel the transaction. As a result, the Group requested Company A to repay the outstanding prepayments immediately and together with the relevant interests.

On 5 January 2017, the Company, Dongguan Yulong, Company A, Company B, a private company established in the PRC and the seller, a company incorporated in Hong Kong, entered into a repayment agreement, pursuant to which, with the unanimous consents of all contractual parties, Company B agreed to settle the above outstanding prepayments in aggregate amounting to US$120 million and the outstanding interest as calculated based on the investment cooperation agreements in Mainland China using the equivalent amount of RMB before 31 March 2017 on behalf of Company A. The Group was advised that Company A, Company B and the seller were all beneficially owned by an individual ("Individual A"). Individual A was not a related party to the Group.

Based on the repayment agreement, in March 2017, Dongguan Yulong on behalf of the Group received sums in aggregate of RMB840 million (equivalent to HK$949.62 million), and in July 2017, received another sum of RMB10.57 million (equivalent to HK$11.95 million), all from Company B. The Group accounted for RMB824.41 million as a full refund of the aforesaid prepayments of US$120 million (HK$930.61 million) and the settlement of the interest receivable of US$1.49 million (HK$11.50 million) with the remaining balance as interest income amounting to HK$18.1 million and foreign exchange difference amounting to HK$1.36 million in profit or loss. Thus, those prepayments together with the interest surcharge were fully repaid to the Group by July 2017.

(ii) The balance as at 31 December 2016 represented a prepayment of RMB300 million (equivalent to HK$335,379,000) to a vendor in connection with the procurement of mobile phone components. The procurement arrangement was cancelled in January 2017 and the Group received the refund of the prepayment in full during February and March 2017.

In March 2017, the Group made another sum of advances amounting to RMB240 million (equivalent to HK$270.19 million) to three entities which were the affiliates of the vendor stated in the preceding paragraph. These advances interest at a rate of 10% per annum, and were unsecured and repayable within one year. In July 2017, the Group received the refund of the advances in full.

Notes to Financial Statements

31 December 2017

25. Due from Directors

Particulars of the amount due from directors are as follows:

Name	At 31 December 2017 HK$'000	Maximum amount outstanding during the year HK$'000	At 31 December 2016 and 1 January 2017 HK$'000	Maximum amount outstanding during the prior year HK$'000
Mr. JIANG Chao	–	–	500	500
Mr. GUO Deying*	–	–	–	3,282
	–	–	500	3,782

* Mr. GUO Deying resigned as an executive director and the chairman of the Group on 5 August 2016.

26. Cash and Cash Equivalents and Pledged Deposits

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**451,130**	1,308,082
Time deposits	**115,776**	361,811
	566,906	1,669,893
Less: pledged deposits for:		
– Bills payable	–	(296,842)
– Bank loans *(note 30)*	**(46,392)**	–
– Issuance of letters of credit	–	(41,922)
– A performance guarantee provided by a bank	**(69,384)**	(23,047)
	(115,776)	(361,811)
Cash and cash equivalents	**451,130**	1,308,082

Notes to Financial Statements

31 December 2017

26. Cash and Cash Equivalents and Pledged Deposits (Continued)

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$353,521,000 (2016:HK$962,538,000). 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.

27. 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:

	2017 HK$'000	2016 HK$'000
Within 3 months	**303,801**	1,181,752
4 to 6 months	**88,576**	405,151
7 to 12 months	**159,924**	118,855
Over 1 year	**204,096**	79,167
	756,397	1,784,925

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

28. Bills Payable

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

	2017 HK$'000	2016 HK$'000
Within 3 months	**45,934**	862,726
Over 3 months	**–**	458,351
	45,934	1,321,077

Notes to Financial Statements

31 December 2017

29. Other Payables and Accruals

	Notes	2017 HK$'000	2016 HK$'000
Accrued royalties		**472,605**	420,988
Advances from customers		**141,711**	247,995
Product warranty provision	*(a)*	**27,133**	34,398
Accrued sales incentives		**104,815**	127,934
Advance in respect of a proposed issue of convertible bonds	*(b)*	**58,195**	–
Other accruals		**90,275**	153,564
Other payables		**991,928**	620,807
		1,886,662	1,605,686

Other payables are non-interest-bearing and have no fixed terms of repayment.

Notes:

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

	Note	2017 HK$'000	2016 HK$'000
At 1 January		**34,398**	43,941
Additional provision	*6*	**45,166**	73,423
Amounts utilised during the year		**(53,521)**	(81,024)
Exchange realignment		**1,090**	(1,942)
At 31 December		**27,133**	34,398

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.

(b) Advance in respect of a proposed issue of convertible bonds

During the year 2017, the Company entered into a Subscription Agreement with an independent subscriber in respect of the issue of convertible bonds with the nominal value of HK$582 million (the "Convertible Bonds Arrangement"). Up to 31 December 2017, the Convertible Bonds Arrangement had not come into effect. The Group received an advance of approximately HK$58 million as a deposit for the arrangement. Details of the Convertible Bonds Arrangement are set out in the Company's announcements dated 17 October 2017 and 16 November 2017.

Notes to Financial Statements

31 December 2017

30. Interest-Bearing Bank and Other Borrowings

	2017			2016		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**3.92-6.96**	**2018**	**589,262**	4.75-6.00	2017	145,331
Bank loans – unsecured	**–**	**–**	**–**	4.57-4.97	2017	760,193
Bank loans – import and trust receipt loans	**–**	**–**	**–**	1.19	2017	217,246
Other borrowings – unsecured	**6.00**	**2018**	**95,704**	4.75	2017	325
			684,966			1,123,095
Non-current						
Other borrowings – unsecured	**4.54**	**2020**	**239,260**	–	–	–
			924,226			1,123,095
Analysed into bank and other loans repayable:						
Within one year or on demand			**684,966**			1,123,095
In the second year			**–**			–
In the third year			**239,260**			–
			924,226			1,123,095

Notes:

(a) At 31 December 2017, the Group's bank borrowings consisted of (i) HK$435,454,000 secured by the pledge of the Group's buildings and prepaid land lease payments in Mainland China, with an aggregate carrying value at 31 December 2017 of approximately HK$155,584,000 (2016: HK$200,786,000) (note 13) and (ii) HK$153,808,000 secured by the pledged deposits, with an aggregate carrying value at 31 December 2017 of approximately HK$46,392,000 (note 26).

(b) At 31 December 2017, the Group's bank and other borrowings of HK$249,512,000 (2016: HK$977,764,000) and HK$674,714,000 (2016: HK$145,331,000) bore interest at fixed rates and floating rates, respectively.

(c) At 31 December 2017, the Group's bank and other borrowings of HK$924,226,000 (2016: HK$905,849,000) and nil (2016: HK$217,246,000) were denominated in RMB and United States dollars ("USD"), respectively.

Notes to Financial Statements

31 December 2017

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	Total HK$'000
At 1 January 2016	45,046	8,209	53,255
Charged to equity during the year	6,773	–	6,773
Charged to profit or loss for the year *(note 10)*	648	–	648
Exchange differences	(3,183)	–	(3,183)
At 31 December 2016 and 1 January 2017	**49,284**	**8,209**	**57,493**
Charged to equity during the year	**(5,940)**	**–**	**(5,940)**
Charged to profit or loss for the year *(note 10)*	**1,000**	**–**	**1,000**
Exchange differences	**3,270**	**–**	**3,270**
At 31 December 2017	**47,614**	**8,209**	**55,823**

Deferred Tax Assets

	Deductible amortisation allowance HK$'000
At 1 January 2016	30,000
Credited to profit or loss for the year *(note 10)*	(23,429)
Exchange differences	(873)
At 31 December 2016 and 1 January 2017	**5,698**
Charged to profit or loss for the year *(note 10)*	**2,103**
Exchange differences	**477**
At 31 December 2017	**8,278**

Notes to Financial Statements

31 December 2017

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 2017, the Group has not recognised deferred tax liabilities of HK$255,243,000 (2016: HK$337,155,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$2,552,433,000 (2016: HK$3,371,548,000), 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:

	2017 **HK$'000**	2016 HK$'000
Tax losses	**404,416**	289,971
Deductible temporary differences	**988,326**	887,859
	1,392,742	1,177,830

The Group had total accumulated tax losses arising in Mainland China and Hong Kong of HK$404,416,000 (2016: HK$289,971,000) 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.

32. Share Capital

	2017 **HK$'000**	2016 HK$'000
Authorised:		
20,000,000,000 (2016: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
5,033,407,480 (2016: 5,032,607,480) ordinary shares of HK$0.01 each	**50,334**	50,326

Notes to Financial Statements

31 December 2017

32. Share Capital (Continued)

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

	Note	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2016		4,354,393,200	43,544	516,331	559,875
Issue of shares upon rights issue		653,189,580	6,532	691,471	698,003
Issue of shares upon exercise of share options		25,024,700	250	27,401	27,651
At 31 December 2016 and 1 January 2017		**5,032,607,480**	**50,326**	**1,235,203**	**1,285,529**
Issue of shares upon exercise of share options	*(a)*	**800,000**	**8**	**429**	**437**
At 31 December 2017		**5,033,407,480**	**50,334**	**1,235,632**	**1,285,966**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

During the year, the movements in issued share capital were as follows:

(a) The movements in share capital due to share options exercised:

	Number of the shares issued due to share options exercised (par value per share of HK$0.01)	Exercise price per share HK$	Total cash consideration (before expenses) HK$'000
	800,000	0.337	272
Total	800,000		272

Notes to Financial Statements

31 December 2017

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, including 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.

Notes to Financial Statements

31 December 2017

33. Share Option Scheme (Continued)

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

	2017		2016	
	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	**1.5252**	**305,743**	1.4878	436,097
Exercised during the year	**0.3370**	**(800)**	0.7431	(25,025)
Forfeited during the year	**1.5897**	**(120,630)**	1.5523	(96,189)
Expired during the year	**1.3286**	**(37,267)**	1.5981	(9,140)
At 31 December	**1.5285**	**147,046**	1.5252	305,743

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.740 per share (2016: HK$1.440 per share).

Notes to Financial Statements

31 December 2017

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:

2017

Number of options '000	Exercise price HK$ per share	Exercise period
2,764	**0.337**	**20-05-14 to 19-05-18**
4,000	**1.620**	**28-06-14 to 27-06-18**
14,496	**1.620**	**28-06-14 to 27-06-18**
336	**0.839**	**12-07-14 to 11-07-18**
2,000	**1.164**	**27-12-15 to 27-12-19**
3,264	**1.164**	**27-12-15 to 27-12-19**
25,210	**1.540**	**10-1-15 to 10-1-19**
500	**1.540**	**10-1-17 to 10-1-21**
35,512	**1.492**	**22-1-16 to 22-1-20**
4,960	**1.492**	**22-1-17 to 22-1-21**
30,004	**1.620**	**16-10-16 to 16-10-20**
24,000	**1.620**	**16-10-17 to 16-10-21**
147,046		

2016

Number of options '000	Exercise price HK$ per share	Exercise period
3,564	0.337	20-05-14 to 19-05-18
8,000	1.620	28-06-14 to 27-06-18
13,448	1.620	28-06-13 to 27-06-17
11,000	1.620	28-06-14 to 27-06-18
336	0.839	12-07-14 to 11-07-18
4,000	1.164	27-12-15 to 27-12-19
23,819	1.164	27-12-13 to 27-12-17
4,656	1.164	27-12-15 to 27-12-19
28,576	1.540	10-01-15 to 10-01-19
2,000	1.540	10-01-17 to 10-01-21
45,448	1.492	22-01-16 to 22-01-20
8,416	1.492	22-01-17 to 22-01-21
46,000	1.620	16-10-17 to 16-10-21
46,480	1.620	16-10-16 to 16-10-20
60,000	1.620	16-10-17 to 16-10-21
305,743		

Notes to Financial Statements

31 December 2017

33. Share Option Scheme (Continued)

The Group recorded a negative share option expense of HK$28,086,000 (note 6) while recognised a share option expense of HK$41,145,000 in 2016 due to the forfeiture of certain share options granted in prior years during the year ended 31 December 2017.

The 800,000 share options exercised during the year resulted in the issue of 800,000 ordinary shares of the Company giving rise to the addition of new share capital of HK$8,000 and the share premium of HK$429,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 147,046,000 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 147,046,000 additional ordinary shares of the Company and additional share capital of HK$1,470,000 and share premium of HK$223,298,000 (before issue expenses).

Subsequent to the end of the reporting period, 109,754,000 share options were forfeited.

At the date of approval of these financial statements, the Company had 37,292,000 share options outstanding under the Scheme, which represented approximately 0.74% of the Company's shares in issue as at that date.

Notes to Financial Statements

31 December 2017

34. Disposal of a Subsidiary

Liaoning Hekusheng Scientific Co.,Ltd ("Liaoning Hekusheng") was a subsidiary of the Group, of which, 55% of its equity interest was attributable to the Group. On 3 February 2017, the Group agreed to transfer its 45% equity interest of Liaoning Hekusheng to independent third parties for a consideration of HK$1,024,000. As a result, the Group lost its control over Liaoning Hekusheng and recorded a loss of HK$534,000 arising therefrom.

	Liaoning Hekusheng HK$'000
Net assets disposed of:	
Prepayments and other receivables	3,793
Inventories	941
Cash and bank balance	832
Other current asset	389
Non-current asset	17
Advance from customers, other payables and accruals	(73)
Non-current liability	(2,854)
	3,045
Proportion of the Group's ownership	55%
Proportion of the net assets attributable to the Group	1,675
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	111
Fair value of the equity interests retained in Liaoning Hekusheng	(228)
Loss recognised as a result of loss of control of a subsidiary	(534)
	1,024
Satisfied by:	
Cash	1,024

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

	Liaoning Hekusheng HK$'000
Cash consideration	1,024
Cash and cash equivalents disposed of	(832)
Net inflow of cash and cash equivalents in respect of the loss of control of a subsidiary	192

Notes to Financial Statements

31 December 2017

35. Notes to the Consolidated Statement of Cash Flows

Changes in Liabilities Arising from Financing Activities

	Bank and other loans HK$'000	Other payable HK$'000	Advance in respect of a proposed issue of convertible bonds HK$'000
At 1 January 2017	**1,123,095**	**–**	**–**
Changes from financing cash flows	**(278,622)**	**–**	**58,195**
Interest expense	**22,735**	**3,513**	**–**
Foreign exchange movement	**57,018**	**130**	**–**
At 31 December 2017	**924,226**	**3,643**	**58,195**

36. Contingency

(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$199,405,000). In preparing these consolidated financial statements, the aforesaid lawsuit was still in the progress.

(b) Litigations with Suppliers

The Group received several civil complaints in 2017 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB171 million (equivalent to HK$205 million). The arbitration procedures of the civil complaints were still in progress as at the date of approval of the consolidated financial statements.

Notes to Financial Statements

31 December 2017

37. Operating Lease Arrangements

(a) As Lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**15,716**	13,587
In the second to fifth years, inclusive	**51,559**	28,672
After five years	**12,986**	14,962
	80,261	57,221

(b) As Lessee

The Group leases certain of its warehouses and office premises under operating lease arrangements for lease terms ranging from one to three years. The total future minimum lease payments under non-cancellable operating leases committed at the end of the reporting period to be made by the Group were as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**22,609**	17,855
In the second to fifth years, inclusive	**14,647**	11,031
	37,256	28,886

Notes to Financial Statements

31 December 2017

38. Commitments

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for buildings	**308,604**	592,533
Capital contributions payable to a joint venture	**–**	109,557
Capital contributions payable to associates	**24,193**	31,414
	332,797	733,504

39. Related Party Transactions

(a) Balances with Related Parties:

	2017 HK$'000	2016 HK$'000
Due from associates	**43,801**	11,261
Due from other related parties *(note)*	**–**	182,683
	43,801	193,944

	2017 HK$'000	2016 HK$'000
Due to associates	**277,082**	268,420
Due to a joint venture	**–**	4,406
Due to other related party *(note)*	**–**	50,538
	277,082	323,364

Note:

Amounts due from/to other related parties represented trade receivables and trade payables due from/to companies under the control of a then director of the Group. The above balances with those related parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

Notes to Financial Statements

31 December 2017

39. Related Party Transactions (Continued)

(b) Transactions with Related Parties:

	2017 HK$'000	2016 HK$'000
Associates:		
Sale of products	**86,531**	372,343
Purchase of raw materials	–	34,931
Rental	–	475
Sale of assets	**1,449**	377
Service income	**53,825**	17,597

	2017 HK$'000	2016 HK$'000
A joint venture:		
Sale of products	–	360,947
Purchase of assets	–	1,102
Service income	–	13,003
Rental	–	5

	2017 HK$'000	2016 HK$'000
Other related parties:		
Sale of products (i)	**7,171**	106,996
Provision of services related to membership promotion, pre-installation promotion and advertisement promotion	–	56,485
Purchase of raw materials (ii)	**9,085**	192,774
Purchase of service related to membership benefits	–	52,858

(i) Due to the completion of the remaining orders of certain products in 2017, a certain revenue amount under the transaction arrangement with other related parties in 2016 was recorded in the current year. The transaction arrangement constituted a connected transaction with details disclosed in 2016 Annual Report.

(ii) The related party transactions with other related party were with the entity under the control of a then director of the Group, which constitute connected transactions or continuing connected transactions ("CCTs") as defined in Chapter 14A of the Listing Rules. Further details about the CCTs are set out in the announcement of the Company dated 16 May 2017.

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

Notes to Financial Statements

31 December 2017

39. 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:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**13,667**	17,629
Pension scheme contributions	**555**	427
Equity-settled share option expense	**(11,409)**	24,340
Total compensation paid to other key management personnel	**2,813**	42,396

Notes to Financial Statements

31 December 2017

40. 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

	2017			2016		
	Loans and receivables HK$'000	**Available-for-sale financial assets HK$'000**	**Total HK$'000**	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	**–**	**34,921**	**34,921**	–	31,068	31,068
Trade receivables	**616,478**	**–**	**616,478**	860,599	–	860,599
Bills receivable	**11,572**	**–**	**11,572**	82,491	–	82,491
Loans receivable	**82,976**	**–**	**82,976**	394,546	–	394,546
Financial assets included in prepayments, deposits and other receivables	**76,543**	**–**	**76,543**	1,396,661	–	1,396,661
Due from directors	**–**	**–**	**–**	500	–	500
Due from associates	**43,801**	**–**	**43,801**	11,261	–	11,261
Due from other related parties	**–**	**–**	**–**	182,683	–	182,683
Pledged deposits	**115,776**	**–**	**115,776**	361,811	–	361,811
Cash and cash equivalents	**451,130**	**–**	**451,130**	1,308,082	–	1,308,082
	1,398,276	**34,921**	**1,433,197**	4,598,634	31,068	4,629,702

Financial Liabilities

Financial liabilities at amortised cost	**2017 HK$'000**	2016 HK$'000
Trade payables	**756,397**	1,784,925
Bills payable	**45,934**	1,321,077
Financial liabilities included in other payables and accruals	**1,464,974**	1,029,908
Interest-bearing bank and other borrowings	**924,226**	1,123,095
Due to associates	**277,082**	268,420
Due to a joint venture	**–**	4,406
Due to other related party	**–**	50,538
	3,468,613	5,582,369

Notes to Financial Statements

31 December 2017

41. 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	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Financial assets				
Available-for-sale investments – listed	**2,735**	2,358	**2,735**	2,358
Financial liabilities				
Interest-bearing bank borrowings	**589,262**	1,122,770	**589,262**	1,122,770
Other borrowings	**334,964**	325	**334,964**	325
	924,226	1,123,095	**924,226**	1,123,095

Management has assessed that the fair values of loans receivable, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, amounts due from directors, amounts due from associates, amounts due from other related parties, pledged deposits, cash and cash equivalents, trade and bills 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 other 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.

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 listed equity investments are based on quoted market prices. The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

Notes to Financial Statements

31 December 2017

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

Fair Value Hierarchy

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

Assets Measured at Fair Value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Available-for-sale investments – listed	**2,735**	**–**	**–**	**2,735**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Available-for-sale investments – listed	2,358	–	–	2,358

The Group did not have any financial liabilities measured at fair value as at 31 December 2017.

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 for financial assets (2016: Nil).

Notes to Financial Statements

31 December 2017

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

Liabilities for which Fair Values are Disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	**–**	**684,966**	**239,260**	**924,226**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	–	1,123,095	–	1,123,095

42. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, 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 directors, an amount due from a joint venture, an amount due from associates, amounts due from other related parties, trade and bills payables, amounts due from/to associates and amounts due from/to other related parties, 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 before tax (through the impact on floating rate borrowings).

Notes to Financial Statements

31 December 2017

42. Financial Risk Management Objectives and Policies (Continued)

Interest Rate Risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000
2017		
RMB	**100**	**4,355**
RMB	**(100)**	**(4,355)**
2016		
RMB	100	(1,453)
RMB	(100)	1,453

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, cost of sales and a certain portion of the bank and other borrowings are denominated in US$ and Euro ("EUR"). The Group is exposed to foreign exchange risk with respect mainly to US$ and EUR. The Group makes rolling forecast 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 before tax (due to changes in the fair value 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
2017		
If RMB weakens against USD	**5**	**(25,953)**
If RMB strengthens against USD	**(5)**	**25,953**
2016		
If RMB weakens against USD	5	1,654
If RMB strengthens against USD	(5)	(1,654)

Notes to Financial Statements

31 December 2017

42. Financial Risk Management Objectives and Policies (Continued)

Foreign Currency Risk (Continued)

	Increase/ (decrease) in EUR %	Increase/ (decrease) in loss before tax HK$'000
2017		
If RMB weakens against EUR	**5**	**236**
If RMB strengthens against EUR	**(5)**	**(236)**
If HK$ weakens against EUR	**5**	**1,687**
If HK$ strengthens against EUR	**(5)**	**(1,687)**
2016		
If RMB weakens against EUR	5	1,773
If RMB strengthens against EUR	(5)	(1,773)
If HK$ weakens against EUR	5	810
If HK$ strengthens against EUR	(5)	(810)

Notes to Financial Statements

31 December 2017

42. Financial Risk Management Objectives and Policies (Continued)

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.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, trade receivables, bills receivable, deposits and other receivables, amounts due from directors, amounts due from other related parties, available-for-sale investments and loans receivable, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had concentrations of credit risk as 80% (2016: 74%) of the Group's trade receivables were due from the Group's five largest customers.

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.

Credit Risk for the provision of Financing Service

The credit risk for the provision of financing service arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under the loans the Group provided. Credit risk is primarily attributable to unexpired loans receivable. The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting period.

The Group has taken measures to identify credit risks arising from the financing service business. The Group manages credit risk at every stage of the risk management system, including the pre-approval, review and credit approval and post-transaction monitoring processes. The business department and risk management department of the Group conducts customer acceptance and due diligence during the pre-approval process. During the post-transaction monitoring process, the Group conducts on-site inspection and ongoing post-transaction reviews focusing on various aspects, including but not limited to customers' product markets, operating income, assets and liabilities and cash flows from operating activities to detect potential risks.

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.

Notes to Financial Statements

31 December 2017

42. Financial Risk Management Objectives and Policies (Continued)

Liquidity Risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2017		
	On demand and less than 1 year HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**756,397**	**–**	**756,397**
Bills payable	**45,934**	**–**	**45,934**
Financial liabilities included in other payables and accruals	**1,464,974**	**–**	**1,464,974**
Interest-bearing bank and other borrowings	**705,477**	**275,149**	**980,626**
Due to associates	**277,082**	**–**	**277,082**
	3,249,864	**275,149**	**3,525,013**

	2016		
	On demand and less than 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	1,784,925	–	1,784,925
Bills payable	1,321,077	–	1,321,077
Financial liabilities included in other payables and accruals	1,029,908	–	1,029,908
Interest-bearing bank and other borrowings	1,134,594	–	1,134,594
Due to a joint venture	4,406	–	4,406
Due to associates	268,420	–	268,420
Due to other related parties	50,538	–	50,538
	5,593,868	–	5,593,868

Notes to Financial Statements

31 December 2017

42. Financial Risk Management Objectives and Policies (Continued)

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 2017 and 2016.

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, trade payables, bills payable, other payables and accruals and amounts due to associates, an amount due to a joint venture and an amount due to other related party, 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:

	2017 **HK$'000**	2016 HK$'000
Interest-bearing bank and other borrowings	**924,226**	1,123,095
Trade payables	**756,397**	1,784,925
Bills payable	**45,934**	1,321,077
Other payables and accruals	**1,886,662**	1,605,686
Due to associates	**277,082**	268,420
Due to a joint venture	**–**	4,406
Due to other related party	**–**	50,538
Less: Cash and cash equivalents	**(451,130)**	(1,308,082)
Net debt	**3,439,171**	4,850,065
Equity attributable to owners of the Company	**843,926**	3,542,908
Capital and net debt	**4,283,097**	8,392,973
Gearing ratio	**80%**	58%

43. Events after the Reporting Period

a) On 4 January 2018, Leview Mobile HK Limited has sold and a purchaser has purchased 897,437,000 shares of the Group at HK$0.9 per share in cash, representing a total consideration of HK$807,693,300.00. Accordingly, Leview Mobile HK Limited ceased to be the single largest shareholder of the Group and the purchaser has become the single largest shareholder of the Group. Details of the transaction are set out in the announcement of the Group dated 4 January 2018.

Notes to Financial Statements

31 December 2017

43. Events after the Reporting Period (Continued)

b) On 11 January 2018, Leview Mobile HK Limited has sold and a purchaser had purchased 551,367,386 shares of the Group. Accordingly, Leview Mobile HK Limited ceased to be the shareholder of the Group and the purchaser has become a substantial shareholder of the Group. Details of the transaction are set out in the announcement of the Group dated 11 January 2018.

c) On 18 May 2018, Yulong Shenzhen, a wholly-owned subsidiary of the Company, and Kingkey Group entered into a maximum loan contract, whereby Kingkey Group has agreed to provide a loan with a maximum amount of no more than RMB500,000,000 to Yulong for corporate operation with a term of 12 months at an annual rate of 6.5%. Details of the transaction are set out in the announcement of the Group dated 18 May 2018.

44. 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:

	2017 **HK$'000**	2016 HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**264,850**	278,953
Available-for-sale investment	**2,735**	2,358
Total non-current assets	**267,585**	281,311
CURRENT ASSETS		
Due from subsidiaries	**1,597,903**	731,764
Due from directors	**–**	500
Prepayments, deposits and other receivables	**69**	944,245
Cash and cash equivalents	**35,357**	121,270
Total current assets	**1,633,329**	1,797,779
CURRENT LIABILITIES		
Due to subsidiaries	**–**	59,684
Other payables and accruals	**58,802**	169
Interest-bearing bank borrowings	**–**	217,246
Total current liabilities	**58,802**	277,099
NET CURRENT ASSETS	**1,574,527**	1,520,680
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,842,112**	1,801,991
Net assets	**1,842,112**	1,801,991
EQUITY		
Issued capital	**50,334**	50,326
Reserves *(Note)*	**1,791,778**	1,751,665
Total equity	**1,842,112**	1,801,991

Notes to Financial Statements

31 December 2017

44. 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	Available-for-sale investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	516,331	44,992	122,167	43,564	(2,266)	1,870	388	254,493	981,539
Total comprehensive (expense)/income for the year	–	–	–	–	(425)	–	–	19,589	19,164
Issue of shares upon completion of the rights issue	691,471	–	–	–	–	–	–	–	691,471
Issue of shares upon exercise of share options	27,401	–	(9,055)	–	–	–	–	–	18,346
Equity-settled share option arrangements	–	–	41,145	–	–	–	–	–	41,145
At 31 December 2016 and 1 January 2017	1,235,203	44,992	154,257	43,564	(2,691)	1,870	388	274,082	1,751,665
Total comprehensive income for the year	–	–	–	–	377	–	–	67,558	67,935
Issue of shares upon exercise of share options	429	–	(165)	–	–	–	–	–	264
Equity-settled share option arrangements	–	–	(28,086)	–	–	–	–	–	(28,086)
At 31 December 2017	**1,235,632**	**44,992**	**126,006**	**43,564**	**(2,314)**	**1,870**	**388**	**341,640**	**1,791,778**

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 4 December 2018.