2018 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.

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

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

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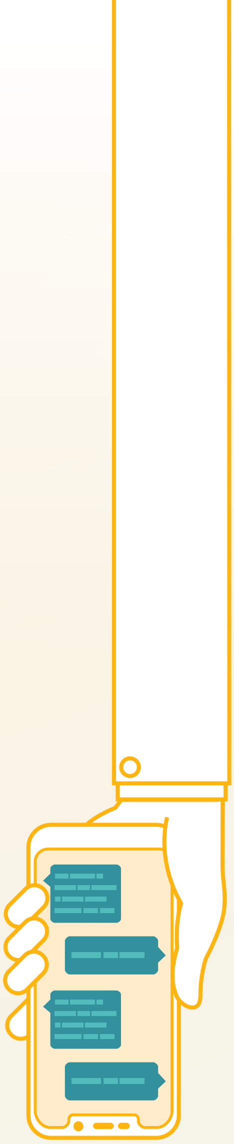
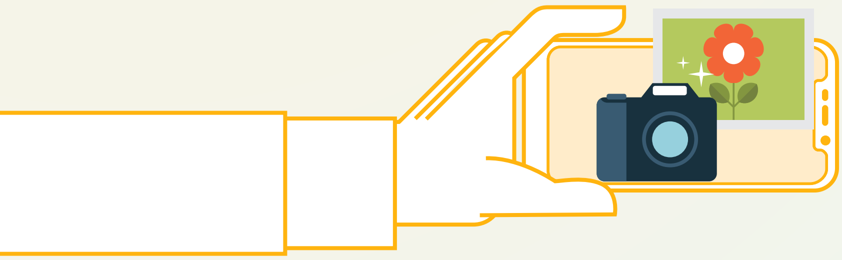
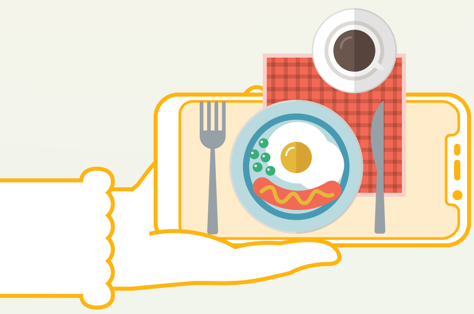






Corporate Information

Registered Office

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. CHAN King Chung *(Chairperson)*
Mr. JIANG Chao *(Resigned on 11 January 2019)*
Mr. CHEN Jiajun *(Appointed on 17 January 2019)*
Mr. XIE Weixin

Authorised Representatives

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

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

Legal Advisers to the Company as to Cayman Islands Law

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

Principal Share Registrar and Transfer Office

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

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)				
	2018	2017	2016	2015	2014
Revenue	**1,277,164**	3,378,077	7,969,477	14,667,866	24,900,471
(Loss)/profit before tax	**(419,408)**	(2,702,251)	(4,356,068)	2,311,011	606,629
Income tax credit/(expense)	**8,746**	(20,825)	(45,352)	(34,505)	(92,551)
(Loss)/profit for the year	**(410,662)**	(2,723,076)	(4,401,420)	2,276,506	514,078

Financial Position

	As at 31 December (HK$'000)				
	2018	2017	2016	2015	2014
Non-current assets	**1,856,007**	1,991,344	2,741,032	5,745,328	1,625,586
Current assets	**1,260,759**	2,859,486	7,113,372	8,537,979	11,218,500
Non-current liabilities	**278,352**	296,464	67,213	225,116	1,704,409
Current liabilities	**2,423,747**	3,764,950	6,248,881	6,641,496	7,779,761
Net assets	**414,667**	789,416	3,538,310	7,416,695	3,359,916

Chief Executive Officer's Statement

CHEN JIAJUN
Executive Director and CEO

Dear Fellow Shareholders:

I am deeply honored to report the consolidated results for the year ended 31 December 2018 to the Shareholders of the Group. The Group confronted a great number of changes, challenges and opportunities in the year ended 31 December 2018 (the "Year"). The Group learned from the past, and contemplated its future from as many aspects as possible. Fortunately, the darkest period of the Group had passed, and the Group started a brand-new exploration in the Year.

The Group saw a large decline in both shipments and revenue in the past year of 2018. For the year ended 31 December 2018, the Group had a turnover of approximately HK$1,277.16 million, which decreased by 62.19% from HK$3,378.08 million in 2017. The net loss of the year 2018 was approximately HK$410.66 million, which decreased by 84.92% from the net loss of HK$2,723.08 million in the year 2017. Gross profit margin for the year 2018 was -5.63%, representing an increase of 3.80% as compared with -9.43% for the year ended 31 December 2017. Both of the basic and diluted loss per share of the Group was HK8.13 cents for the year ended 31 December 2018.

The Group recorded a decrease in revenue from the sales of smartphones in domestic market in the year of 2018. But it continued to keep a solid cooperation relationship with local carriers and their sales and distribution channels. The Group continued to release low-end smartphones in carriers' channel in the year of 2018 so as to coordinate their diverse contract layout.

As regional sales in the United States continued to maintain its growth momentum, and sales contribution continued to expand for the Year, the sales in the United States region accounted for the majority of the total sales of the Group, and became the core business region. The Group provided an independent exclusive product line for US market and enlarged product category to smart accessories, such as cable, charger, battery and headphone. The Group had conducted a series of product demand and preference investigation for US market and built a US dedicated research and development team.

Chief Executive Officer's Statement

During the Year, the Group had built a solid cooperation with US telecommunications carriers. On 8 August 2018, the senior management of T-mobile and MetroPCS paid a visit to the headquarters of the Group. The visitors and the Company had a deep exchange on 5G path of Coolpad and 5G commercial plan in America. The senior management of T-mobile and MetroPCS highly recognized the Group's technical strength and anticipated a deeper cooperation in the future.

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 products and its brand.

The Group attached more importance to intellectual property ("IP") protection in the Year. The Company initiated a lawsuit against Xiaomi regarding patent infringement, further details of which have been disclosed in the Company's announcements made on 26 January 2018, 4 May 2018, 10 May 2018 and 13 November 2018. The Patent Reexamination Board of the China National Intellectual Property Administration (the "PRB") issued a decision to affirm the relevant patent to be valid in part in respect of the request for invalidation of the patent submitted by Xiaomi Telecom to the PRB. As advised by the Company's PRC legal advisers, the Company believes that the decision of the PRB has provided favorable evidence for the Group in the trial of the cases in the future.

The year of 2019 is expected to be a year full of both challenges and opportunities, where research and development work on the most up-to-date technologies, such as 5G technology, Internet of Things ("IOT") and Artificial Intelligence ("AI"), is being comprehensively conducted in the industry, and the Group will be happily to be one of them in 2019. Looking forward, the Group is fully prepared to build a new Coolpad 2.0 vision and strategy with the new management team.

Development and sales of smartphones is currently the main business of the Group and will continue to remain as the main business of the Group for the coming year of 2019. The Group has been in the telecommunication industry for more than 25 years since the very beginning of 1994 and the Group has accumulated extensive experiences and knowledge on telecommunication technologies. The Group has invented the "dual sim cards and dual standby" capability, which greatly facilitated people's experience of using mobile phones. The Group will continue to invest more resources on research and development in order to bring more cutting-edge design and comfortable user experience to the Group's customers.

Chief Executive Officer's Statement

Up to the date of this report, the sales in the United States region accounts for the majority of the total sales of the Group and it is expected that the sales will continue to grow in the coming year of 2019. The Group regards the United States region as its core business region and will allocate its best resources to this business region. The Group will also attach great importance to branding, which will remain an important focus of the Group.

The Group is aware of the opportunities in Southeast Asian market, South Asian market and Africa market. The Group will conduct business in a stable and healthy pace, as a result of which, the Group will only sell profitable products in these regions in order to guarantee its profit. Sales channels construction is one of the most importance in those sales regions and the Group will gradually improve it in the coming year of 2019.

To build a strong support for business operation, the Group will also focus on supply chain management in the coming year of 2019. The Group emphasizes the importance of coordination between supply chain and sales, and will regulate the completion of sales orders frequently. The Group intends to take various measures to reduce supply chain cost including but not limited to the consideration of delicacy management.

As a member of the domestic 5G standard formulation group, the Group is devoted in developing the next 5G technology and its smart terminal. The Group believes that 5G technology poses another opportunity for the Group and has submitted more than 100 patents for Small Cell, as of up to the date of this annual report. The Group will continue to invest in 5G research and development in 2019 and will keep conducting tests to meet 5G commercial use.

The research and development team of the Group will not let itself overwhelmed in AI trend as well. The R&D team of the Group will focus on the most up-to-date artificial technologies, such as facial recognition, scene classification and human-body posture recognition, etc. With the development of AI, IOT and 5G technology and output of research and development of the Group, the products with AI features would be more intelligent and user-friendly and the Group aims to enlarge the product portfolios to IOT and Mobile Broadband area, such as mesh, speaker and smart camera. The Group is confident that it would soon bring various products with premium design, decent quality, AI enabled and better user experience, which are worth waiting for.

With its sophisticated management, consistent endeavour, innovative technologies and promising product layout, the Group is confident that it will be able to overcome the hardship and navigate forward. As taking heavy burden and embarking on a new journey, the Group 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.

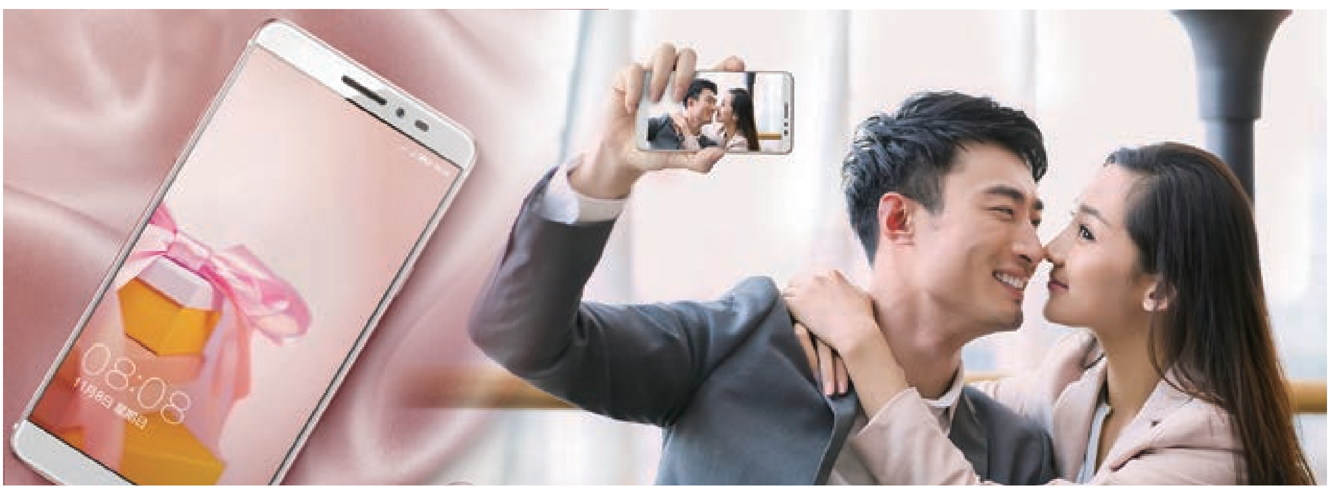
Chen Jiajun
Executive Director & Chief Executive Officer

Hong Kong, 29 March 2019

Total Revenue HK$1,277.16 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		
	2018	2017	Variance (%)
Revenue			
Sale of mobile phones and related accessories	**1,261.39**	3,263.89	-61.35
Wireless application service income	**14.70**	86.10	-82.93
Finance service income	**1.07**	28.09	-96.19
Total revenue	**1,277.16**	3,378.08	-62.19
Cost of sales	**(1,349.09)**	(3,696.48)	-63.50
Gross loss	**(71.93)**	(318.40)	-77.41
Other income and gains	**213.37**	367.44	-41.93
Gain/(loss) on the loss of control of subsidiaries, net	**94.59**	(0.53)	-17,947.17
Impairment of investments in associates	**(6.66)**	(453.69)	-98.53
Selling and distribution expenses	**(158.01)**	(667.86)	-76.34
Administrative expenses	**(323.08)**	(709.26)	-54.45
Other expenses	**(47.04)**	(752.78)	-93.75
Finance costs	**(37.14)**	(26.25)	41.49
Share of losses of:			
A joint venture	**(0.78)**	(3.77)	-79.31
Associates	**(82.73)**	(137.14)	-39.67
Loss before tax	**(419.41)**	(2,702.25)	-84.48
Income tax credit/(expense)	**8.75**	(20.83)	-142.01
Loss for the year	**(410.66)**	(2,723.08)	-84.92



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			
	2018		2017	
	Revenue HK$ Million	**% of revenue**	Revenue HK$ Million	% of revenue
Revenue				
Sale of mobile phones and related accessories	**1,261.39**	**98.77**	3,263.89	96.62
Wireless Application Service income	**14.70**	**1.15**	86.10	2.55
Finance Service	**1.07**	**0.08**	28.09	0.83
Total	**1,277.16**	**100**	3,378.08	100

The Group recorded consolidated revenue for the year ended 31 December 2018 of HK$1,277.16 million, representing a decrease of 62.19% as compared with HK$3,378.08 million for the year ended 31 December 2017. The decrease of the consolidated revenue in 2018 was mainly due to 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 Loss

	Year ended 31 December			
	2018		2017	
Gross loss	**Gross loss HK$ Million**	**Gross loss margin (%)**	Gross loss HK$ Million	Gross loss margin (%)
Total	**(71.93)**	**(5.63)**	(318.40)	-9.43

The Group's overall gross loss for the year ended 31 December 2018 was HK$71.93 million, representing a decrease of 77.41% as compared with HK$318.40 million gross loss for the year ended 31 December 2017. The Group's overall gross profit margin for the year ended 31 December 2018 recorded a -5.63%, representing an increase of 40.30% as compared with -9.43% for the year ended 31 December 2017. The gross loss of the Group was primarily attributable to the fierce competition of the 4G smartphone market in Mainland China and the decline of the shipments volume of the Group.

Other Income and Gains

Other income and gains of the Group amounted to approximately HK$213.37 million for the year ended 31 December 2018, representing a decrease of 41.93% as compared with HK$367.44 million for the year ended 31 December 2017. This decrease was attributable to the decrease of government grant received by subsidiaries of the Group and the decrease of interest income in 2018. Meanwhile, due to the depreciation of Renminbi in 2018, the Group recorded exchanges loss this year which also led to the decrease of other income and gains.

Management Discussion & Analysis

Selling and Distribution Expenses

	Year ended 31 December	
	2018	2017
Selling and distribution expenses (HK$ million)	**158.01**	667.86
Selling and distribution expenses/Revenue (%)	**12.37**	19.77

Selling and distribution expenses of the Group for the year ended 31 December 2018 decreased to HK$158.01 million, representing a decrease of approximately HK$509.85 million, or 76.34%, as compared with HK$667.86 million for the year ended 31 December 2017. The decrease in selling and distribution expenses was primarily attributable to the decreased expenditure for marketing, advertising and promotion expenses. The net decrease of 7.40% as a percentage of total revenue was because of the cease of sales of products that may cost losses in the domestic market during the reporting period.

Administrative Expense

	Year ended 31 December	
	2018	2017
Administrative expenses (HK$ million)	**323.08**	709.26
Administrative expenses/Revenue (%)	**25.30**	21.00

Administrative expenses decreased by 54.45% from HK$709.26 million for the year ended 31 December 2017 to HK$323.08 million for the year ended 31 December 2018. As a percentage of total revenue, administrative expenses increased to 25.30% in 2018 from 21.00% in 2017. The net increase of 4.30% as a percentage of total revenue was because of the decrease of overall revenue and the continuing R&D expenditures on new technologies during the reporting period.

Income Tax Expense

For the year ended 31 December 2018, the Group's income tax expense decreased to a net tax credit amount of HK$8.75 million which primarily due to the disposal of certain investment properties which led to the reversal of deferred tax liabilities during the reporting period.

Net Loss

For the year ended 31 December 2018, the Group recorded a net loss of HK$410.66 million, representing a decline of HK$2,312.42 million, or 84.92%, as compared with the net loss of HK$2,723.08 million for the year ended 31 December 2017. The net loss for 2018 was mainly because of the decrease in the sales.

Liquidity and Financial Resource

For the year ended 31 December 2018, the Group's operating capital was mainly generated from cash from its daily operation and other borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and other unforeseeable cash requirements. The Group had a gearing ratio of 85% as at 31 December 2018 (2017: 80%). 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 2018 amounted to HK$168.55 million, while it was HK$451.13 million as at 31 December 2017.

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 US$25,000,000 (equivalent to HK$195,823,000). In preparing the annual report, the aforesaid lawsuit was still in progress.

(b) Litigations with the suppliers

The Group received several civil complaints in 2018 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB129 million (equivalent to HK$147 million). The arbitration procedures of the civil complaints were still in progress as at the date of the annual report.

Pledge of Assets

As at 31 December 2018, the Group's time deposits of approximately (i) HK$57.11 million were used as a pledged for issuance of letters of credit (2017: nil), and (ii) HK$57.86 million were used as a security for the banks to provide performance guarantees (2017: HK$69.38 million), and (iii) nil were used to secure bank loans (2017: HK$46.39 million).

Management Discussion & Analysis

Business Review

The Group confronted a great number of changes, challenges and opportunities in the year ended 31 December 2018 (the "Year"). The Group learned from the past, and contemplated its future from as many aspects as possible. Fortunately, the darkest period of the Group had passed, and the Group started a brand-new exploration in the Year.

The Group saw a large decline in both shipments and revenue in the past year of 2018. For the year ended 31 December 2018, the Group had a turnover of approximately HK$1,277.16 million, which decreased by 62.19% from HK$3,378.08 million in 2017. The net loss of the year 2018 was approximately HK$410.66 million, which decreased by 84.92% from the net loss of HK$2,723.08 million in the year 2017. Gross profit margin for the year 2018 was -5.63%, representing an increase of 3.80% as compared with -9.43% for the year ended 31 December 2017. Both of the basic and diluted loss per share of the Group was HK8.13 cents for the year ended 31 December 2018.

The Group's shareholding structure has undergone changes during the Year. The Company had been notified by Leview Mobile HK Limited on 4 January 2018 that it had sold 897,437,000 shares at HK$0.9 per share in cash to Power Sun Ventures Limited, a company incorporated in British Virgin Islands. Immediately after completion of that transaction, Leview Mobile HK Limited and Power Sun Ventures Limited had become interested in 551,367,386 Shares and 897,437,000 Shares, representing approximately 10.95% and 17.83% of the total issued share capital of the Company, respectively. Accordingly, Leview Mobile HK Limited had ceased to be the single largest Shareholder and Power Sun Ventures Limited had become the single largest Shareholder.

On 11 January 2018, the Company had been notified by Leview Mobile HK Limited that it had sold 551,367,386 Sales Shares to Zeal Limited, a company incorporated in Cayman Islands. Immediately after completion of that transaction, Leview Mobile HK Limited had ceased to have any interest in the Company and Zeal Limited had become interested in 551,367,386 Shares, representing approximately 10.95% of the issued share capital of the Company. Accordingly, Leview Mobile HK Limited ceased to be the Shareholder and Zeal Limited had become a substantial Shareholder.

The Group gave up some loss-making products, and its management managed to control expenses strictly so as to minimize losses. Meanwhile, the Group took various measures to enhance its liquidity and financial position, including but not limited to the disposal of certain investment properties of the Group and the equity interest of non-core operating subsidiaries of the Company, and continued to communicate proactively with banks and interested parties to seek financing.

The Group recorded a decrease in revenue from the sales of smartphones in domestic market in the year of 2018. But it continued to keep a solid cooperation relationship with local carriers and their sales and distribution channels. The Group continued to release low-end smartphones in carriers' channel in the year of 2018 so as to coordinate their diverse contract layout.

Management Discussion & Analysis

As regional sales in the United States continued to maintain its growth momentum, and sales contribution continued to expand for the Year, the sales in the United States region accounted for the majority of the total sales of the Group, and became the core business region. The Group provided an independent exclusive product line for US market and enlarged product category to smart accessories, such as cable, charger, battery and headphone. The Group had conducted a series of product demand and preference investigation for US market and built a US dedicated research and development team.

During the Year, the Group had built a solid cooperation with US telecommunications carriers. On 8 August 2018, the senior management of T-mobile and MetroPCS paid a visit to the headquarters of the Group. The visitors and the Company had a deep exchange on 5G path of Coolpad and 5G commercial plan in America. The senior management of T-mobile and MetroPCS highly recognized the Group's technical strength and anticipated a deeper cooperation in the future.

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 products and its brand.

The Group attached more importance to intellectual property ("IP") protection in the Year. The Company initiated a lawsuit against Xiaomi regarding patent infringement, further details of which have been disclosed in the Company's announcements made on 26 January 2018, 4 May 2018, 10 May 2018 and 13 November 2018. The Patent Reexamination Board of the China National Intellectual Property Administration (the "PRB") issued a decision to affirm the relevant patent to be valid in part in respect of the request for invalidation of the patent submitted by Xiaomi Telecom to the PRB. As advised by the Company's PRC legal advisers, the Company believes that the decision of the PRB has provided favorable evidence for the Group in the trial of the cases in the future.

Beyond that, the Company has also appointed a Chief IP Officer to focus on the Group's IP and trademarks management. The Group holds a strong belief that by respecting and protecting IP, the Group can promote industry innovation and create a healthy and sustainable development of the industry.

The Group continued to strengthen its research and development ("R&D") ability in the Year. The Group recognises the importance of R&D ability of the Group and recognises itself as a tech-driven company. The Group owns 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.

Management Discussion & Analysis

Outlook

The year of 2019 is expected to be a year full of both challenges and opportunities, where research and development work on the most up-to-date technologies, such as 5G technology, Internet of Things ("IOT") and Artificial Intelligence ("AI"), is being comprehensively conducted in the industry, and the Group will be happily to be one of them in 2019. Looking forward, the Group is fully prepared to build a new Coolpad 2.0 vision and strategy with the new management team.

Development and sales of smartphones is currently the main business of the Group and will continue to remain as the main business of the Group for the coming year of 2019. The Group has been in the telecommunication industry for more than 25 years since the very beginning of 1994 and the Group has accumulated extensive experiences and knowledge on telecommunication technologies. The Group has invented the "dual sim cards and dual standby" capability, which greatly facilitated people's experience of using mobile phones. The Group will continue to invest more resources on research and development in order to bring more cutting-edge design and comfortable user experience to the Group's customers.

Up to the date of this report, the sales in the United States region accounts for the majority of the total sales of the Group and it is expected that the sales will continue to grow in the coming year of 2019. The Group regards the United States region as its core business region and will allocate its best resources to this business region. The Group will also attach great importance to branding, which will remain an important focus of the Group.

The Group has placed its best team in the United States which was put together with the intent of making Coolpad a household name in the United States. The Group will continue to train its professional team by recruiting the best people in the industry and ensuring that the team has a thorough understanding of the United States market. By transforming its organizational culture into a more innovative, flexible and collaborative one, this provides new experience to consumers, carriers, and media of the Group.

In the United States market, the Group will present itself to its partners as a United States company with a completely new vision, look and feel with our professional team. Besides, the Group will change its product portfolio, targeting on kids and parents. The Group has already built a solid cooperation with T-mobile, but it will not stop here. The Group will centralize its resources to meet the United States telecommunication carriers' requirements so as to expand solid cooperation to other mobile carrier companies.

The Group is aware of the opportunities in Southeast Asian market, South Asian market and Africa market. The Group will conduct business in a stable and healthy pace, as a result of which, the Group intends to only sell profitable products in those regions. Sales channels construction is important in those sales regions and the Group will gradually improve it in 2019.

Management Discussion & Analysis

To build a strong support for business operation, the Group will also focus on supply chain management in the coming year of 2019. The Group emphasizes the importance of coordination between supply chain and sales, and will regulate the completion of sales orders frequently. The Group intends to take various measures to reduce supply chain cost including but not limited to the consideration of delicacy management.

As a member of the domestic 5G standard formulation group, the Group is devoted in developing the next 5G technology and its smart terminal. The Group believes that 5G technology poses another opportunity for the Group and has submitted more than 100 patents for Small Cell, as of up to the date of this annual report. The Group will continue to invest in 5G research and development in 2019 and will keep conducting tests to meet 5G commercial use.

The research and development team of the Group will not let itself overwhelmed in AI trend as well. The R&D team of the Group will focus on the most up-to-date artificial technologies, such as facial recognition, scene classification and human-body posture recognition, etc. With the development of AI, IOT and 5G technology and output of research and development of the Group, the products with AI features would be more intelligent and user-friendly and the Group aims to enlarge the product portfolios to IOT and Mobile Broadband area, such as mesh, speaker and smart camera. The Group is confident that it would soon bring various products with premium design, decent quality, AI enabled and better user experience, which are worth waiting for.

With its sophisticated management, consistent endeavour, innovative technologies and promising product layout, the Group is confident that it will be able to overcome the hardship and navigate forward. As taking heavy burden and embarking on a new journey, the Group 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 complied with 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 2018.

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. CHEN Jiajun (Chief Executive Officer, appointed on 17 January 2019)
Mr. JIANG Chao (resigned on 11 January 2019)
Mr. ZHANG Wei (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. MA Lin (resigned on 05 January 2018)
Mr. WANG Junmin (resigned on 05 January 2018)
Mr. YANG Yongqiang (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 biographies of the Directors are set out in the "Directors and Senior Management" on pages 48 to 52 of this Annual Report.

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

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

Corporate Governance Report

Chairman and Chief Executive Officer

Under Code Provision A.2.1 of the Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The roles of the chairman and chief executive officer of the Board have been separate since 5 August 2016. However, since Mr. Liu Hong ceased to be the chairman of the Board on 19 January 2018, the Board has not yet designated a Director to act as the chairman of the Board. The Board will continue to evaluate the roles and functions of the Board members and will consider appointing a chairman of the Board in accordance with the relevant requirements and the Articles of Association of the Company.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company has not met the requirements under the Code during the year ended 31 December 2018.

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.

Board Operation

During the year ended 31 December 2018, the Board held five meetings and two Annual General Meetings ("AGM"), and no Extraordinary General Meeting ("EGM") was held during the year ended 31 December 2018.

Attendance of individual Directors at the Board meetings in 2018 is as follows:

Name of Directors	Board Meetings	AGM
Executive Directors		
Mr. JIANG Chao	5/5	0/1
Mr. ZHANG Wei (resigned on 05 January 2018)	0/5	N
Mr. LEUNG Siu Kee (appointed on 19 January 2018)	3/5	1/1
Mr. LAM Ting Fung Freeman (appointed on 19 January 2018)	3/5	1/1
Mr. LIANG Rui (appointed on 19 January 2018)	3/5	1/1
Non-executive Directors		
Mr. MA Lin (resigned on 05 January 2018)	0/5	N
Mr. WANG Junmin (resigned on 05 January 2018)	0/5	N
Mr. YANG Yongqiang (resigned on 05 January 2018)	0/5	N
Mr. NG Wai Hung (appointed on 19 January 2018)	3/5	1/1
Mr. LIU Hong (re-designated from executive Director on 19 January 2018, resigned on 03 April 2018)	2/5	N
Independent Non-executive Directors		
Mr. CHAN King Chung	5/5	1/1
Dr. HUANG Dazhan	5/5	0/1
Mr. XIE Weixin	5/5	1/1

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 one meeting in 2018 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)*	1/1
Dr. HUANG Dazhan	1/1
Mr. XIE Weixin	1/1

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

Pursuant to code provision B.1.5 of the Code, the remuneration of the members of the senior management by band for the year 2018 is set out below:

Remuneration bands (HK$)	**Number of persons**
1 to 1,000,000	10
1,000,001 to 2,000,000	1
2,000,001 to 3,000,000	–
3,000,001 to 4,000,000	–
4,000,001 to 5,000,000	1
Total	12

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 2018, 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), Mr. JIANG Chao (resigned on 11 January 2019), Mr. CHEN Jiajun (appointed on 17 January 2019), and Mr. XIE Weixin as members.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship and senior management by making reference to the skills, experience, professional knowledge, personal integrity and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary. The Nomination Committee held one meeting during the year ended 31 December 2018. The attendance record of the Nomination Committee meeting is set out below:

Name	Number of meetings attended
Mr. CHAN King Chung *(Chairman)*	1/1
Mr. XIE Weixin	1/1
Mr. JIANG Chao (resigned on 11 January 2019)	1/1
Mr. CHEN Jiajun (appointed on 17 January 2019)	0/1

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

Corporate Governance Report

Provision of Information to Directors

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

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

Continuous Professional Development

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors in the form of seminar and provision of training materials. A summary of training received by Directors during the year ended 31 December 2018 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. 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)	√
Mr. JIANG Chao (resigned on 11 January 2019)	√
Mr. ZHANG Wei (resigned on 05 January 2018)	N
Non-executive Directors	
Mr. NG Wai Hung (appointed on 19 January 2018)	√
Mr. LIU Hong (re-designated from executive Director to non-executive Director on 19 January 2018, resigned on 03 April 2018)	√
Mr. MA Lin (appointed on 17 November 2017, resigned on 05 January 2018)	N
Mr. WANG Junmin (appointed on 17 November 2017, resigned on 05 January 2018)	N
Mr. YANG Yongqiang (appointed on 17 November 2017, resigned on 05 January 2018)	N
Independent Non-executive Directors	
Mr. CHAN King Chung	√
Dr. HUANG Dazhan	√
Mr. XIE Weixin	√

N: not applicable

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 risk management 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 Code, management would provide sufficient explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

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

The Directors conducted a review of the overall effectiveness of the internal control system of the Group for the year ended 31 December 2018. An internal audit department has been established to perform regular reviews and conduct audit of the Company and its subsidiaries and reported to the Board on any material issues and make recommendations to the Board. The work carried out by the internal audit department will ensure the internal controls are in place and functioning properly as intended.

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

Corporate Governance Professionals Limited (formerly known as 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.

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.

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 2018. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018 are set out in the Report of the Directors on page 66 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. LEUNG Siu Kee was appointed as the Company Secretary of the Company in 2018 and he have complied with the training requirement of the Listing Rules during the year.

External Auditor

The Group has not changed external auditors in the past three years. Ernst & Young have been appointed as the External Auditor of the Group for the year under review. An amount of approximately HK$3.76 million was charged by Ernst & Young for its audit services provided to the Group in 2018 (2017: HK$3.88 million). The responsibilities of the external auditor with respect to financial reporting are set out in the section headed "Independent Auditor's Report" on page 67 of this report.

During the year, HK$0.52 million (2017: HK$0.85 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

Approach

Coolpad Group Limited ("Coolpad" or the "Company") and its subsidiaries (collectively, the "Group" or "we") are committed to maintaining the strong position as a leading smartphone developer and manufacturer in the People's Republic of China ("PRC"), while integrating sustainability into our business strategy. Various factors, including business related challenges, work ethics, global trends, laws and regulations, etc., are taken into account in order to constantly promote business growth and achieve sustainability.

The Group recognizes its responsibility to be accountable to all its stakeholders, including customers, potential investors and shareholders, employees, suppliers, non-governmental organizations ("NGOs") and local community. Understanding the needs and expectations of the stakeholders is the key to the Group's success. As each stakeholder requires a different engagement approach, the Group has established a tailor-made communication method in order to better meet each stakeholder's expectations.

Within the Group, we place a huge emphasis on monitoring the risks and exploring potential opportunities. For the sake of striking a balance among business needs, social demands and environmental impacts, we are committed to continuously monitoring the risks and opportunities which exist in our daily operations, and embracing transparent corporate culture to ensure that our sustainability strategies are well communicated to our employees, customers, suppliers, the communities and other stakeholders.

To implement sustainability strategies which apply to all levels of the Group, the top-down approach is adopted for the following sustainability strategies:

1. To achieve environmental sustainability

2. To respect human rights and social culture

3. To engage with stakeholders

4. To support our employees

5. To sustain local communities

Environmental, Social and Governance Report

About This Report

The Group is pleased to present its Environmental, Social and Governance ("ESG") Report. The content contained herein focuses on providing an overview of the environmental, social and governance performance of our major operations in the PRC for the year ended 31 December 2018 (the "Reporting Year"). It helps us to keep a close eye on our current performance as well as the opportunities to improve our performance. The Reporting Year coincides with our financial year.

Scope of the Report

This report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The two ESG subject areas, namely Environmental and Social, are disclosed separately, highlighting the impacts of the operations of the Group in the PRC from 1 January 2018 to 31 December 2018.

For the Reporting Year, the material ESG issues are those which have or may have a significant impact on:

- The PRC's telecommunication products industry;
- The global telecommunication products market;
- The current or future environment or society in which we operate;
- Our financial performance or operations; and/or
- Our stakeholders' assessments, decisions and actions.

The data and information used in this report are referenced from our archived documents, records, statistics and research. Financial data is extracted from or calculated based on the Group's audited annual financial statements for the year ended 31 December 2018.

Environmental, Social and Governance Report

About Coolpad

Our Business

Coolpad was listed on the Main Board of the Stock Exchange with stock code 2369. The principal operating activity of the Group is development, production and sales of smartphones and smart accessories. Due to the high quality of our smart products, we have maintained the leading position in the telecommunication industry.

Our Vision

To maintain the leading developer and manufacturer position in the industry in order to produce high quality telecommunication products in the PRC and further to the global market.

Our Mission

To provide the best and safe products to meet customers' demands and create value to the shareholders and investors based on our experienced and reliable development and production team with extensive knowledge of the industry.

Board of Directors (the "Board")

As at the date of this annual report, the Board consists of:

Executive Directors	Non-Executive Directors	Independent Non-Executive Directors
Mr. Chen Jiajun	Mr. Ng Wai Hung	Dr. Huang Dazhan
Mr. Leung Siu Kee	–	Mr. Xie Weixin
Mr. Lam Ting Fung Freeman	–	Mr. Chan King Chung
Mr. Liang Rui	–	–

Environmental, Social and Governance Report

Our Stakeholders

Coolpad actively strives to better understand and engage our stakeholders to ensure continuous improvements. We strongly believe that our stakeholders play a crucial role in sustaining the success of our business in the challenging market.

Stakeholders	Probable issues of concern	Communication and responses
HKEx	Compliance with listing rules, timely and accurate announcements.	Meetings, training, roadshows, workshops, programs, website updates and announcements.
Government	Compliance with laws and regulations, prevention of tax evasion, and social welfare.	Interaction and visits, government inspections, tax returns and other information.
Suppliers	Payment schedule, stable demand.	Site visits.
Shareholders/Investors	Corporate governance system, business strategies and performance, and investment returns.	Organizing and participating in seminars, interviews, shareholders' meetings, issue of financial reports and/or operation reports for investors, media and analysts.
Media & Public	Corporate governance, environmental protection, and human right.	Issue of newsletters on the Company's website.
Customers	Product quality, delivery times, reasonable prices, service value, labour protection and work safety.	Site visits, and after-sales services.
Employees	Rights and benefits, employee compensation, training and development, work hours, and working environment.	Union activities, trainings, interviews for employees, employee handbooks, internal memos, employee suggestion boxes.
Community	Community environment, employment and community development, and social welfare.	Community activities, employee voluntary activities, community welfare subsidies and charitable donations.

Environmental, Social and Governance Report

Section A: Environmental

The Group understands the high importance of environmental protection, in respect of which we promise not to sacrifice the environment in exchange of our business. In this respect, we strongly believe that a healthy environment is the basis of the Group's sustainable development. Thus, we are committed to operating in an accountable and sustainable way by integrating environmental protection and social responsibility considerations in our day-to-day operations through various measures so as to decrease the related carbon emission level and the relevant intensity[1].

For the Reporting Year, there was no material non-compliance issue with relevant laws and regulations related to the environment. The Group will continue to be alert to any non-compliance behavior relating to critical environmental problems.

Emissions

Air Pollution Emission

During the production process of the smart products, there were no significant gaseous fuel consumptions. The material air pollutants emitted from the petrol consumption of automobile usage, mainly for transferring employees between the head office in Shenzhen and the workshops in Dongguan, during the Reporting Year. The aforementioned air pollutants are composed of sulphur oxides ("SO x"), nitrogen oxides ("NO x") and particulate matter ("PM"). During the Reporting Year, the total petrol consumptions was approximately 19,000 L. The total air pollutants produced approximated to 152 kg, with an intensity of approximately 0.24 kg per employee. Nevertheless, all mobile machineries are under frequent checks and maintenance to ensure the energy efficiency.

Combustion Sources	NO x (kg)	SO x (kg)	PM (kg)	Total (kg)
Automobile usage	138.02	0.28	13.22	151.52

Greenhouse Gases Emission

During the Reporting Year, the total greenhouse gases ("GHG") emission by the Group weighted approximately 6,000 tons. The key culprit of the GHG emission by the Group was the electricity consumption, which represented over 95% of the total GHG emission. Besides, there were several direct GHG emissions from usage of electricity generators, automobiles and refrigerants, comprising of approximately 2% of the total GHG emission. Alongside the aforementioned sources, there were also indirect emission sources noted as the electricity used in fresh water and sewage processing and paper waste disposal at landfills, representing the remaining GHG emission. In respect of our 637 employees, the GHG emission intensity was approximately 9.4 tons per employee.

[1] The different intensity figures in this report are calculated per employee, which were 637 employees as at 31 December 2018.

Environmental, Social and Governance Report

As electricity consumption was the major source of the Group's carbon emission, the Group will strengthen the energy-saving monitor measures by encouraging its staff to turn off idle appliances, with the use of energy-efficient appliances as well as the promotion of the use of natural lighting in the office and workshop.

GHG Emission Sources	**GHG produced (ton)**	**%**
Scope 1 – Direct emission from sources		
– Electricity generators	2.62	0.04
– Automobile	52.34	0.87
– Refrigerants	64.62	1.08
Scope 2 – Emissions from electricity consumption		
– Electricity consumption[2]	5,729.22	95.67
Scope 3 – Other indirect emission sources		
– Paper waste disposal in landfills	2.85	0.05
– Electricity used for processing fresh water[3]	77.47	1.29
– Electricity used for processing sewage[3]	59.67	1.00
Grand total	**5,988.79**	**100**
Intensity per employee	**9.40**	

Waste Management

Hazardous Waste

The hazardous waste was under good control by our well-developed waste management system. All kinds of hazardous wastes generated by production plants were classified and recycled according to the urban waste classification program, and industrial hazardous waste handling contracts were signed with qualified environmental hygiene management centers and hazardous waste trading centers. During the Reporting Year, the reported amount of produced hazardous wastes, classified as categories HW08, HW29 and HW49 under urban classification program, weighted to 0.225 tons. All of the produced hazardous wastes were handled properly by the external contracted parties. Hence, no significant amount of hazardous waste was disposed and emitted for the Reporting Year.

2 According to the《二氧化碳排放核算方法及數據核查表》published by the Ministry of Ecology and Environment, PRC on 15th May 2016, the power supply discharge coefficient of Guangdong Province was set at 0.5912 kg/kWh.

3 The per unit electricity consumption for processing fresh water and sewage in the PRC was assumed to be at 0.575 and 0.31 kWh, which were as same as the case in Hong Kong according to the 2016/2017 Annual Return of Water Supplies Department and 2017/2018 Sustainability Report of Drainage Services Department, HKSAR.

Non-Hazardous Waste

The non-hazardous waste produced by the Group was mainly the inert waste, which was the remaining scrap of materials after metal processing, electrical components and paper waste. Most of the time, the remaining materials and components were re-sold to third parties as raw materials for further production or recycling. Hence, there was only paper waste to be disposed to the landfills. During the Reporting Year, the total re-sold materials and components weighted to 16.28 tons whereas the total paper waste disposed by the Group weighted to 0.59 tons.

Waste Management Policy

The Group has established a mature policy and procedure regarding the waste management, including sewage, gaseous waste, noise, solid waste and chemicals. The policy clearly stated the proper handling procedures and the means to reduce every kind of captioned wastes. In addition, we tried our best to streamline and plan ahead our 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.

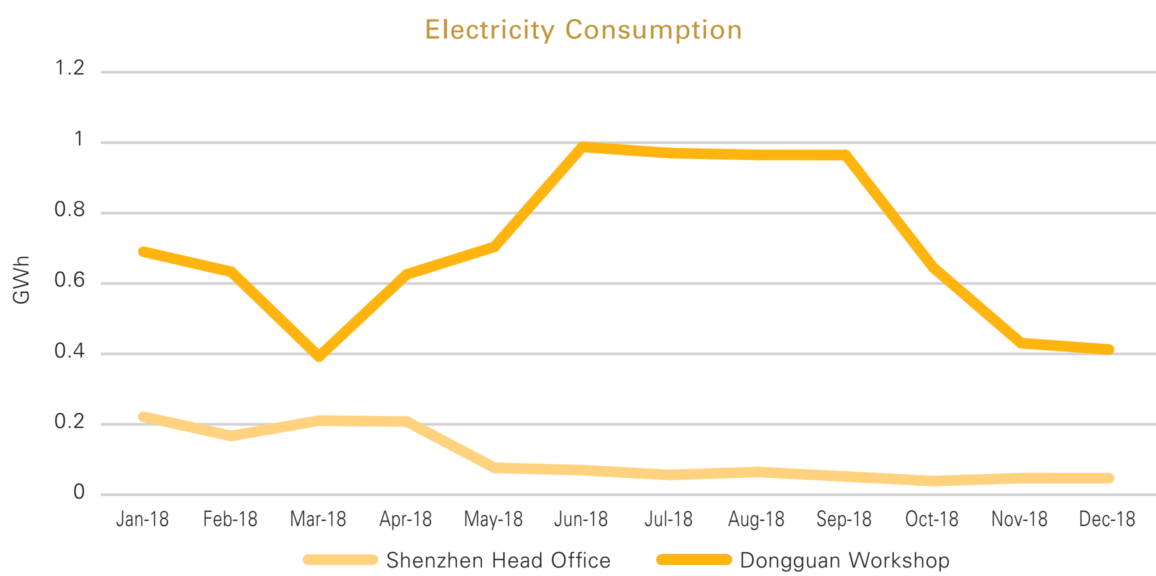
To advocate paperless work environment, we encourage our employees to use electronic documents and ERP and OA systems instead of printed documents. In addition, we spur our staff to use double-side printing and reuse the single-side-printed paper as draft paper.

Use of Resources

The Group initiates to become an environmental-friendly and -sustainable enterprise. To reduce carbon emission and footprint, we have undertaken carbon reduction measures in our daily operations.

Electricity Consumption

During the Reporting Year, the total electricity consumption amounted to approximately 9.69 GWh, with an intensity of approximately 15.21 MWh per employee. Compared to the total electricity consumption of 15.62 GWh in 2017, there was a sharp cut of 37.96% due to the move of our head office location during the Reporting Year as well as based on our successful implementation of various means to reduce the corresponding energy consumption.



Environmental, Social and Governance Report

The Group has emphasized the essentialness of energy conservation. The Group spurs every employee to switch off all idle appliances, and ensure that all electronic equipment is switched off after work hours. In the office and workshops, the Group has encouraged its staff to develop an energy-saving habit by using natural light whenever possible instead of electric lighting. The air-conditioning system is set to be above 26 °C in summer and below 22 °C in winter. Besides, the Group has explicitly specified a responsible person for energy conservation purpose. The Group has formulated an in-time statistical analysis of energy consumption of different business units for the sake of better monitoring process. In the foreseeable future, we promise to make more efforts on the topic of energy conservation to further reduce our carbon footprint.

Water Consumption

As one of the most precious natural resources, water resource must be cherished by the Group as an essential target. During the Reporting Year, the Group consumed 192,477 tons water in our business operations, in which the Shenzhen head office and Dongguan workshops comprised of 8.6% and 91.4% of the total water consumption respectively, with an intensity of approximately 302 tons water per employee. The Group has encouraged its staff to save and use less water by helping our staff develop a sense of environmental protection awareness. By this means, the Group has significantly whittled down the water consumption for 22.96% from 249,856 tons in 2017.

As our water sources were from the governmental body, there was no water supply issue identified for the Reporting Year.

Packaging Materials

During the Reporting Year, the packaging materials, which were mainly the packaging paper boxes, used in the Group's daily operations weighted to 574.7 tons. Our packaging materials were used and purchased align with our production plan. Thus, there were no significant disposal of packaging materials to be identified during the Reporting Year.

The Environmental and Natural Resources

Alongside the aforementioned aspects, the Group has also developed wide range of written policies for its employees to comply with for the sake of minimizing the negative impact on the environment. The Group drives its employees to follow the policies by weekly checks on the effectiveness of the implementation among different departments. With a satisfying result for at least three consecutive weeks, an incentive bonus will be rewarded to the corresponding departments. In this regard, not only can it reduce the carbon footprints produced by the Group, but it also helps establish a sense of responsibility regarding environmental sustainability.

In addition to the internal management, the Group also emphasizes the cooperation with its suppliers on environmental protection. Suppliers are required to sign a commitment for not using any materials harmful to the environment and promise to comply with the relevant global regulations, including "the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment" ("RoHS") and "Registration, Evaluation, Authorization and Restriction of Chemicals" (REACH").

As for our efforts made on environmental protection, we are pleased to report that there was no material non-compliance issue regarding relevant laws and regulations for the Reporting Year.

Section B: Social

Employment

The Group places huge importance on its most treasurable assets – its employees. We value our employees' contribution and dedication to our business development. For the sake of the mutual interests for both, we aim to grow with our employees for the future boom of the Group.

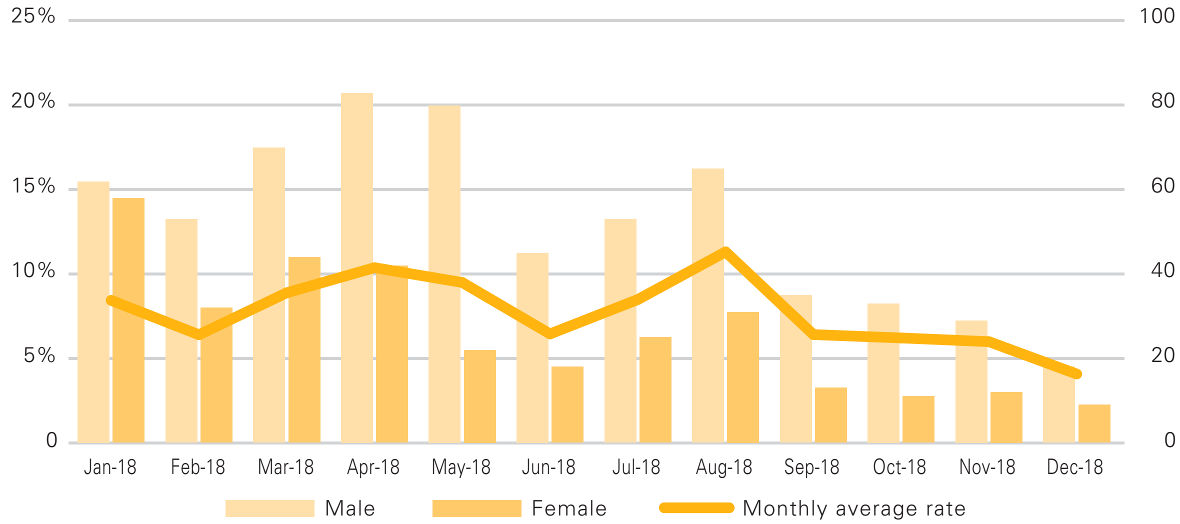
Employee Benefits

The Group has established a long-term favorable relationship with our employees. We offer competitive and attractive remuneration package, including on-the-job internal and external training, medical benefits, transportation allowances, meal allowances, year-end bonus and performance-based incentive bonus, to our employees. The Group also provides Social Insurance and Housing Provident Fund to all its employees. Mutual funds are collected from volunteers to provide to the applicants who are in serious sickness of economic difficulties. We continuously assess our employees based on their performance for the decision of salary increase, bonus amount and promotion chance in order to keep them up to the Group's standard and reward them for their contributions.

Attractive number of leaves, including marriage leave, compassionate leave, maternity leave, pregnancy-checkup leave, breastfeeding leave and paternity leave, are provided to our employees to ensure that they can enjoy work-life balance. Also, the Group regularly organizes different types of employee activities, such as birthday party, important festival party, annual dinner, football matches and staff picnic.

During the Reporting Year, the market competitive employee benefits help keep a healthy monthly average turnover rate as approximately 8%.

Number of Turnover and Turnover Rate by Gender



The Group strictly abides with the Labour Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Regulations on Management of Housing Provident Fund and other relevant laws and regulations which cover all employment protection and benefits.

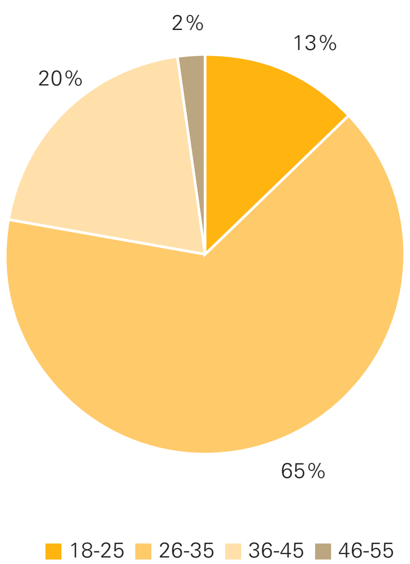
Environmental, Social and Governance Report

Harmonious Workplace

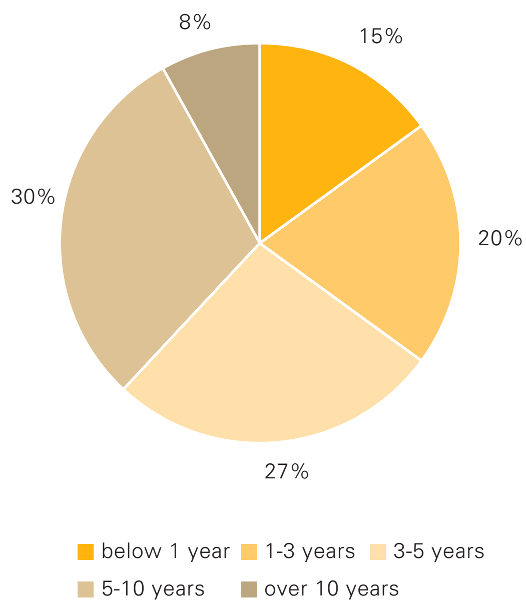
To diversify the background exposure of the Group, we hire people based on experience, expertise and values, regardless of race, colour, creed, national origin, ancestry, sex, marital status, disability, religious or political affiliation, age or sexual orientation. We promote equal opportunities and diversity for all employees.

As at 31 December 2018, our employees' male-to-female ratio was approximately 2:1, with 416 as male and 221 as female for a total of 637 employees. In addition, our employees are from different age groups. In respect of our harmonious work environment and effective human resources policies, over 37% of our staff have contributed for the Group for over 5 years, and 65% of our staff even served for 3 years or above. We treasure every single employee and strive for building a trustful and strong bond with them. We aim to drive employee engagement and retention in the future.

Employee Structure by Age Group



Employee Structure by Years of Service



Health and Safety

The Group is committed to safeguarding the safety, health and welfare of all employees, workers, and general public likely to be affected by the ordinary operations of the Group. To redeem our commitment, we have established certain safety policies. The policies state clearly the safety requirements of every possible damage source, including from machinery, lifting, electric shock, pressure vessel, toxic gas and suffocation, falling, mobile vehicles and safety equipment. In case any kinds of accident occur, the Group formulates a well-developed emergency handling and reporting procedure to alleviate the possible lost in a most effective and efficiency way.

The Group understands that preventive measures are way more important than reactive measures. Therefore, the Group organizes fire and emergency drill in Dongguan workshops on a regular basis to help our employees be familiar with the treatment procedures of emergency accidents. Reports of the drills are reviewed for improvement. In addition, there are enough fire equipment, such as fire extinguishers and fire hydrants, placed in both the office building and workshops. The fire equipment is under regular checks to ensure that it is in good condition. Safety training is also provided to our employees to ensure that they fully understand our safety policies and requirements, and protect them from getting any injuries.

During the Reporting Year, there was no injury or fatal cases reported within the Group. We will continue to strive for a safe and healthy work environment for our employees and workers.

Development and Training

The Group underlines the indispensableness of employee improvement. The Group promises to provide sufficient and efficient training to its employees. We also focus on the ability requirements of each level of employees to ensure that our employees are grooming with the Company at the same time.

The Group offers different internal training and development to its employees to enhance their performance, professional skills and knowledge. We also encourage our staff to attend external training and courses by reimbursing the tuition fees. Induction trainings are also offered to our new recruits to provide an overview of our business and a comprehensive introduction of the departmental operations and job responsibilities. We have performance appraisal on a regular basis to assess our employees' skills and knowledge. If any of the employees lag behind, additional training with assessments will be provided to keep our employees on track to maintain the work quality. Incentive rewards will be realized according to the points that are formed by the quantified evaluation results.

As mentioned above in *Health and Safety*, our employees are required to attend safety trainings. The safety trainings focus on the prevention of accidents, with safety procedures for using machineries and handling chemicals, and emergency dealing and reporting procedures.

During the Reporting Year, our 189 employees received a total of 1,160 hours of training, in which 30% of the total number of staff attended.

Environmental, Social and Governance Report

Labor Standards

The Group strictly abides by the relevant laws and regulations with regard to child labour, minimum wage specified by the government, and Social Insurance and Housing Provident Fund scheme. We are delighted to announce that we have not encountered major risks in human rights and employment matters so far. The Group guarantees that no employee is made to work against his/her will, or work under forced labour, or subject to coercion related to work. Recruitment of child labour is strictly prohibited. There was no employee recruited under the age of 18. Through the whistle-blowing mechanism, employees are able to voice out injustice they face.

Supply Chain Management

As a group to develop, manufacture and sell smart products, we recognize the essentialness of the supply chain management of our inventories. During the supplier selection process, we consider the qualification, reputation, product quality, quality consistency and the ability to deliver on time among the suppliers. We obtain the material samples for our internal testing to ensure the material supplies are up to our strict standards. A professional evaluation team will also be formed to perform on-site inspection for the production process of the suppliers. Only the suppliers with a pass result in the initial assessment can be added into our approved supplier list. As at 31 December 2018, we developed trustful long term relationship and did business with 375 suppliers, supplying both raw materials and auxiliary materials, with 329 located in the PRC, 45 in Hong Kong and 1 in Singapore. The Group conducts annual assessment of the approved suppliers to confirm that they are up to its required standards. We remove any of the suppliers with unsatisfying results from the approved supplier list to ensure that we produce the best quality of products using the high-quality raw materials.

Besides the supplier selection and maintenance, we also place high importance on the contracting process with our suppliers. To safeguard the interests of both the Group and the counterparties, all contracts are under its Legal Department's review before signing to ensure the legal terms and obligations fulfil its requirements.

Not only do we focus on the upstream suppliers, but we also emphasize the development of long-term relationship with the downstream customers. As mentioned, on-time delivery is the fundamental key to manage the supply chain. To enhance the effectiveness and efficiency of delivering products to our customers, the Group has established an efficient supply chain management system that links between manufacturers, suppliers, distributors and retailers by optimising the allocation of resources. In this regard, we can provide best-quality products to our customers in a timely manner at the most reasonable price.

Product Responsibility

Since the Group specializes on the development and manufacturing of smartphones and smart accessories, we are committed to complying with and even exceeding applicable industrial and safety standards and quality control for the sake of safeguarding both the company reputation and the public interests.

Quality Standards

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.

Environmental, Social and Governance Report

Product Certification

Before our products launched, certification reports must be obtained to comply with the standards required by relevant regulations and rules set in different regions, including the United States, the European Union, Asia-pacific region, etc. Our legal team constantly monitors the updates on the aforementioned rules and regulations to ensure that our products are up to the global standards.

Intellectual Property Rights

The Group attached great importance to Intellectual Property protection in order to better fulfil its product responsibility. The Group has registered wide range of trademarks and Intellectual Property ("IP") rights for its products. No infringement is tolerated by the Group. Beyond that, the Group had also appointed a Chief IP Officer 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.

Customers' Response

The Group always treasures the customer relationship as an invaluable asset. We has formulated a thorough after-sale service network to effectively handle compliant by our customer service department. All compliant will be recorded in details to facilitate the follow-up actions as well as for future references to improve our product and sale-service quality. During the Reporting Year, there were 7 cases of complaints regarding product quality reported. The total number of returned products was 25, which comprised of only 0.001% of the total number 2,086,220 of delivered goods. We will continue to keep the well-established relationship with our customers by providing top quality products.

Data Privacy

Written policies and procedures are concretely covers the topics including the treatment of confidential information, security of confidential information and disclosure of confidential information. Unauthorized access of the Group's information system and take-away of sensitive information are strictly prohibited. Our staff are required to sign Non-disclosure Agreement ("NDA") upon recruitment. Confidential information is under strict monitor to prevent any direct or indirect information leakage to external parties through any means.

Relevant Laws and Regulations

Actively notifying the compliance issues and inspecting among any deficiencies can prevent problems from escalating. Therefore, the Group keeps a close eye on the updates of relevant regulations and codes to revise its policies and operations accordingly to prevent any malpractice. We will continue to strive for providing high quality products to our precious customers.

Environmental, Social and Governance Report

Anti-corruption

The Group has established a wide range of "Anti-Bribery & Anti-Corruption Management Policy" to state clearly the definition of bribery and corruption, the Group's stance and the responsibilities of its employees during various procedures such as procurement and tendering. The Group severely prohibits its employees to accept any forms of gifts and benefits beyond proper permission. During the Reporting Year, there was no concluded legal case regarding any forms of fraud brought against the Group or its employees.

The Group encourages its employees to report alleged malpractices or misconduct. We value and welcome our employees to report any suspected malpractices through various channels. Management take immediate action to investigate the issue. The Group promises to fully support the whistleblowers and the identity of the whistleblowers is also well protected.

Community Investment

The Group has been actively involved in the community investment. During the Reporting Year, we have donated goods and gifts with an equivalent amount of US$1,500 for the Kids Meal Houston. 2 of our employees volunteered in the Kids Meal Houston event for 5 hours voluntary work. We imitate to invest more resources into the voluntary section for the sake of positively contributing to the society.

Regulatory Compliance

The Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to emissions, employment, health and safety, labour standards, product responsibility and anti-corruption during the Reporting Year.

Environmental Data

Emissions Indicators	Year ended 31 December 2018
Air Emissions	
Total air emissions	151.53 kg
Air emission intensity	0.24 kg per employee
NOx emission	
Light goods vehicle (petrol)	138.02 kg
SOx emission	
Light goods vehicle (petrol)	0.28 kg
PM emission	
Light goods vehicle (petrol)	13.22 kg
Greenhouse Gas Emissions	
Total greenhouse gas emissions	5,988.79 tons
Greenhouse gas emission intensity	9.40 tons per employee
CO_2 emission	
Electricity generator (diesel oil)	2.62 tons
Light goods vehicle (petrol)	45.64 tons
Refrigerants	64.62 tons
Electricity consumption	5,729.22 tons
Electricity used for processing fresh water	77.47 tons
Electricity used for processing sewage	59.67 tons
Paper waste disposal at landfills	2.85 tons
CH_4 emission	
Electricity generator (diesel oil)	0.001 tons
Light goods vehicle (petrol)	0.082 tons
N_2O emission	
Electricity generator (diesel oil)	0.002 tons
Light goods vehicle (petrol)	6.62 tons
Hazardous waste produced	
Total hazardous waste reported	0.225 tons
Non-hazardous waste produced	
Total non-hazardous waste produced	
Paper waste disposed	0.59 tons
Industrial waste re-sold	16.28 tons

Environmental, Social and Governance Report

Emissions Indicators	Year ended 31 December 2018
Use of Resources Indicators	
Electricity consumption	
Total electricity consumption	9.69 GWh (2017: 15.62 GWh)
Shenzhen Head Office	1.25 GWh
Dongguan workshops	8.44 GWh
Electricity consumption intensity	15.21 MWh per employee
Water Consumption	
Total water consumption	192,477 tons (2017: 249,856 tons)
Shenzhen Head Office	16,502 tons
Dongguan workshops	175,975 tons
Water consumption intensity	302.16 tons per employee
Packaging Materials	
Total packaging materials consumption	574.7 tons
Packaging materials consumption intensity	0.90 tons per employee

Social Data

Employment Indicators	Year ended 31 December 2018
Employment	
Total number of employees	637
By Gender	
Male	416
Female	221
By Years of Service	
Below 1 year	96
1 – 3 years	127
3 – 5 years	175
5 – 10 years	189
Above 10 years	50
By Age Group	
18 – 25	85
26 – 35	411
36 – 45	130
46 – 55	11
Employment turnover	
Total number of employee turnover	943
% of employee turnover (monthly average)	7.71%
By Gender (monthly average)	
Male	7.86%
Female	7.42%
Health and Safety Indicators	
Number of reported injuries	–
Number of lost days	–
Development and Training Indicators	
Total number of hours of staff training	1,160
Total number of employee received training	189
Male	133
Female	56
Percentage of employees received training	30%

Environmental, Social and Governance Report

Supply Chain Indicators	Year ended 31 December 2018
Total number of suppliers did business in Reporting Year	375
The PRC	329
Hong Kong	45
Singapore	1

Product Responsibility Indicators

Total number of complaints received	7
Total number of goods returned	25
Total number of goods delivered	2,086,220
Percentage of goods returned	0.001%

Anti-corruption Indicators

Number of conducted legal cases regarding corruption	–

Community Indicators

Community Investment

Corporate charitable donation (equivalent amount)	US$1,500

Employee volunteering

Number of employee volunteers	2
Total number of service hours	5

ESG Reporting Guide & Reference

A. Environmental	Reference in this report

A1. Emissions	Page #
Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	31-33
KPI A1.1 The types of emissions and respective emission data.	31
KPI A1.2 Greenhouse gas emission in total (in tonnes) and where appropriate, intensity (e.g per unit of production volume, per facility).	32
KPI A1.3 Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g per unit of production volume, per facility).	33
KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g per unit of production volume, per facility).	33
KPI A1.5 Description of measures to mitigate emissions and results achieved.	31-33
KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	33

A2. Use of Resources	Page #
Policies on the efficient use of resources, including energy, water and other raw materials.	34-35
KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh) and intensity (e.g. per unit of production volume, per facility).	34
KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	35
KPI A2.3 Description of energy use efficiency initiatives and results achieved.	35
KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	35
KPI KA2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	35

A3. The Environment and Natural Resources	Page #
Policies on minimizing the issuer's significant impact on the environment and natural resources.	31-35
KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	31-35

Environmental, Social and Governance Report

B. Social	Reference in this Report

B1. Employment	Page #
Policies and compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	36-37
KPI B1.1 Total workforce by gender, employment type, age Group and geographical region.	37
KPI B1.2 Employment turnover rate by gender, age Group and geographical region.	36

B2. Health and Safety	Page #
Policies and compliance with laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.	38
KPI B2.1 Fatality number and rate.	38
KPI B2.2 Lost days due to work injury.	38
KPI B2.3 Description of occupational health and safety measures adopted how they are implemented and monitored.	38

B3. Development and training	Page #
Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	38
KPI B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management, etc.).	38
KPI B3.2 The average training hours completed per employee by gender and employee category.	38

B4. Labour standards	Page #
Policies and compliance with laws and regulations relating to preventing child and forced labour.	39
KPI B4.1 Description of measures to review employment practices to avoid child and forced labour.	39
KPI B4.2 Description of steps taken to eliminate such practices when discovered.	39

Environmental, Social and Governance Report

B5. Supply chain management	Page #
Policies on managing environmental and social risks of the supply chain.	39
KPI B5.1 Number of suppliers by geographical region.	39
KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	39

B6. Product responsibility	Page #
Policies and compliance with laws and regulations relating to health and safety. Advertising, labeling and privacy matters relating to products and services provided and method of redress.	40-41
KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	40
KPI B6.2 Number of products and service related complaints received and how they are dealt with.	40
KPI B6.3 Description of practices relating to observing and protecting intellectual property rights.	40
KPI B6.4 Description of quality assurance process and recall procedures.	40
KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	41

B7. Anti-corruption	Page #
Policies and compliance with laws and regulations relating to bribery, extortion, fraud and money laundering.	41
KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Year and the outcomes of the cases.	41
KPI B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	41

B8. Community investment	Page #
Policies on community engagement to understand the needs of the communities where we operate and to ensure that our activities take into consideration the communities' interests.	41
KPI B8.1 Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	41
KPI B8.2 Resources contributed (e.g. money or time) to the focus area.	41

Directors and Senior Management

Directors

Executive Directors

Mr. CHEN Jiajun (Appointed on 17 January 2019)

Mr. Chen, aged 27, is an executive Director, the chief executive officer of the Company. Mr. Chen has extensive investment experience and currently has a wide variety of investments in different industry sectors. Mr. Chen holds a master's degree in Science of Finance from the University of Southern California ("USC"). Before joining the Group, Mr. Chen served at Shenzhen Kingkey Banner Commercial Management Ltd. (深圳市京基百納商業管理有限公司) as vice-president from May 2015 to May 2018 and president from May 2018 to January 2019. Mr. Chen currently also serves as a Director of USC South China Alumni Club.

Mr. JIANG Chao (Resigned on 11 January 2019)

Mr. JIANG Chao, aged 48, is a former executive Director, former vice chairman, former the chief executive officer, and the former 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. ZHANG Wei (Resigned on 05 January 2018)

Mr. Zhang, aged 43, 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.

Directors and Senior Management

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

Mr. Leung, aged 42, 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 43, 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.

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

Mr. Lam, aged 39, 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.

Directors and Senior Management

Non-Executive Directors

Mr. MA Lin (Resigned on 05 January 2018)

Mr. Ma Lin, aged 40, 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 (Resigned on 05 January 2018)

Mr. Wang Junmin, aged 39, 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.

Mr. YANG Yongqiang (Resigned on 05 January 2018)

Mr. Yang Yongqiang, aged 39, 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 55, 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.

Directors and Senior Management

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

Mr. LIU Hong, aged 46, 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).

Independent Non-Executive Directors

Mr. CHAN King Chung

Mr. CHAN King Chung, aged 56, 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 61, 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 77, 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 44, is an executive vice president of the Group, responsible for R&D system supply chain of the Company. Mr. XU obtained a bachelor`s degree in electromagnetic field from Xidian University (西安電子科技大學). Mr. XU joined the Group in July 1998 and has about more than 15 years of experience in mobile communication, terminal security, cloud computing and mega data technology field, making contribution in standard work in more than 10 international and domestic standards organizations, such as 3GPP, IETF, IEEE, IMI-2020(5G) Promotion Group, etc. Mr. XU participated in the research and development of dual-standby technique which led to win the second prize of National Science and Technology Progress which is the highest award in the terminal field.

Mr. MA Fei

Mr. Ma Fei, aged 36, is the chief financial officer of the Group. Mr. Ma obtained a bachelor's degree in accounting from Xi'an Jiaotong University. Mr. Ma is primarily responsible for the finance and investor relations of the Group. Mr. Ma has more than 10 years of experience in accounting and finance. Mr. Ma joined the Group in 2006, and has served successively as financial manager, vice director of investor relations department.

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 2018 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 customers' information.

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

Results, Dividends and Distribution

The Group's loss for the year ended 31 December 2018 and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 72 to 186.

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 2018.

Annual General Meeting

The forthcoming annual general meeting of the Company will be held on 24 May 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 21 May 2019 to 24 May 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, 20 May 2019.

Charitable Donations

In the year under review, the Group's charitable donations were approximately RMB10,000 (2017: RMB230,000).

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.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**1,277,164**	3,378,077	7,969,477	14,667,866	24,900,471
(Loss)/profit before tax	**(419,408)**	(2,702,251)	(4,356,068)	2,311,011	606,629
Tax	**8,746**	(20,825)	(45,352)	(34,505)	(92,551)
(Loss)/profit for the year	**(410,662)**	(2,723,076)	(4,401,420)	2,276,506	514,078
Attributable to owners of the Company	**(409,321)**	(2,674,457)	(4,379,631)	2,324,518	512,855

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**1,856,007**	1,991,344	2,741,032	5,745,328	1,625,586
Current assets	**1,260,759**	2,859,486	7,113,372	8,537,979	11,218,500
Non-current liabilities	**278,352**	296,464	67,213	225,116	1,704,409
Current liabilities	**2,423,747**	3,764,950	6,248,881	6,641,496	7,779,761
Net assets	**414,667**	789,416	3,538,310	7,416,695	3,359,916

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

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

There were no movements for share capital and share options during the year under review.

Share Award Plan

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

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

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

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

Pension Scheme

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

Pre-Emptive Rights

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

Permitted Indemnity Provision

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

Report of the Directors

Purchase, Redemption or Sale of Listed Securities of the Company

During the 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 43 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$1,556,742,000. The Board do not recommend the payment of any final dividend for the year ended 31 December 2018. 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 2018, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Compliance with Laws and Regulations

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

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

Save as disclosed in the section head "Application of Corporate Governance Principles", as far as the Company is aware of, the Group has complied in material respects with the relevant laws and regulations which have a significant impact on the business and operations of the Company during the year ended 31 December 2018.

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 27 to 47 of this annual report.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 77% of the total sales for the year and sales to the largest customer included therein amounted to approximately 64%. Purchases from the Group's five largest suppliers accounted for approximately 44% of the total purchases for the year ended 31 December 2018 and purchases from the largest supplier included therein amounted to approximately 13%.

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.

Report of the Directors

Directors

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

Executive Directors

Mr. CHEN Jiajun (appointed on 17 January 2019)
Mr. JIANG Chao (resigned on 11 January 2019)
Mr. ZHANG Wei (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. MA Lin (resigned on 05 January 2018)
Mr. WANG Junmin (resigned on 05 January 2018)
Mr. YANG Yongqiang (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. LAM Ting Fung Freeman, Mr. NG Wai Hung and Mr. CHAN King Chung will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. Besides, Mr. CHEN Jiajun was appointed by the board as an Executive Director on 17 January 2019, he shall retire from office, but being eligible, have offered himself for re-election at the forthcoming annual general meeting. Save for the aforesaid, the other remaining directors of the Company would continue in office.

The Company has received from each of the independent non-executive Directors an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the board of Directors 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 48 to 52 of the Annual Report.

Directors' Service Contracts

Mr. CHEN Jiajun, an executive Director, has entered into a service agreement with the Company dated 17 January 2019 for a term of three years commencing from 17 January 2019.

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 note 38 to the financial statements, neither Director nor entity connected with the Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group subsisting at any time during the year under review or at the end of the year under review to which the Company or any of its subsidiaries was a party.

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

Save as disclosed in note 38 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$581,948,000.

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;

(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.

Since the condition precedent was not satisfied as at 31 December 2018, pursuant to the Subscription Agreement, the Convertible Bonds was terminated then.

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

As at 31 December 2018, 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	*2*	441,600	–	–	–	–	–	441,600	0.01
Mr. HUANG Dazhan	*2*	288,000	–	–	–	–	–	288,000	0.01
Mr. XIE Weixin	*2*	384,000	–	–	–	–	–	384,000	0.01

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.

Report of the Directors

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

As at 31 December 2018, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions in Shares of the Company:

Name	*Notes*	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Mr. CHEN Jiajun	*1*	897,437,000	Interest of controlled corporation	897,437,000	17.83
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
Kingkey Financial Holdings (Asia) Limited	*1*	897,437,000	Beneficial owner	897,437,000	17.83
Zeal Limited	*4*	551,367,386	Beneficial owner	551,367,386	10.95

Notes:

1. The 897,437,000 shares were directly held by Kingkey Financial Holdings (Asia) Limited and Kingkey Financial Holdings (Asia) Limited is ultimately owned by Mr. Chen Jiajun. Therefore, Mr. Chen Jiajun is indirectly interested in the 897,437,000 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.

4. The 551,367,386 shares were directly held by Zeal Limited, and Zeal limited is wholly owned by Shenzhen LETV Bridge Merger Acquisition Fund Investment Management Enterprise (Limited Partnership) (深圳市樂視鑫根併購基金投資管理企業(有限合夥)).

Save as disclosed above, as at 31 December 2018, 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:

	Number of share options								
Name or category of participant	At 1 January 2018	Grant during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 31 December 2018	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	2,764,000	–	–	–	2,764,000	–	20-05-08	20-05-14 to 19-05-18	0.337
In aggregate – granted on 30 Jun 2010	14,496,000	–	–	–	18,496,000	–	28-06-10	28-06-14 to 27-06-18	1.620
In aggregate – granted on 12 July 2011	4,336,000	–	–	336,000	–	–	12-07-11	12-07-14 to 11-07-18	0.839
In aggregate – granted on 27 Dec 2012	5,264,000	–	–	–	5,264,000	–	27-12-12	27-12-15 to 27-12-19	1.164
In aggregate – granted on 10 Jan 2014	25,210,000	–	–	–	22,030,000	3,180,000	10-01-14	10-1-15 to 10-1-19	1.540
In aggregate – granted on 10 Jan 2014	500,000	–	–	–	500,000	–	10-01-14	10-1-17 to 10-1-21	1.540
In aggregate – granted on 22 Jan 2015	35,512,000	–	–	–	28,512,000	7,000,000	22-1-15	22-1-16 to 22-1-20	1.492
In aggregate – granted on 22 Jan 2015	4,960,000	–	–	–	2,760,000	2,200,000	22-1-15	22-1-17 to 22-1-21	1.492
In aggregate – granted on 16 Oct 2015	30,004,000	–	–	–	22,916,000	7,088,000	16-10-15	16-10-16 to 16-10-20	1.620
In aggregate – granted on 16 Oct 2015	24,000,000	–	–	–	14,000,000	10,000,000	16-10-15	16-10-17 to 16-10-21	1.620
Subtotal	147,046,000	–	–	336,000	117,242,000	29,468,000			
Business consultants									
Total	147,046,000	–	–	336,000	117,242,000	29,468,000			

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.

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 2018.

Directors' Interests in a Competing Business

As at 31 December 2018, none of the Directors or any of their respective associates had any interest in any business which competes or likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

Material Legal Proceedings

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

During the year ended 31 December 2018, the Group has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the units' functional currencies, where the receivables and payables are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD and EUR which may affect the Group's performance and asset value for the year ended 31 December 2018. The Group has not entered into any derivative contracts to hedge against the risk in the year 2018.

Employees and Remuneration Policy

During the year ended 31 December 2018, the Group's staff costs (including directors' remuneration) amounted to approximately HK$182.63 million (2017: HK$548.99 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 2018, the Group had 637 employees (2017: 1,421 employees).

Significant Investments

Save as disclosed in note 24 to the financial statements, there were no significant investments held by the Group as at 31 December 2018.

Material Acquisitions and Disposal

Save as disclosed in note 33 to the financial statements, the Company and its subsidiaries had no material acquisition and disposal transactions during the year under review.

Report of the Directors

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 2018. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

Events after the Reporting Period

Details of the significant events of the Group after the reporting period are set out in note 42 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

Chen Jiajun
Executive Director & Chief Executive Officer

29 March 2019, Hong Kong

Independent Auditor's Report

EY 安永

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

Opinion

We have audited the consolidated financial statements of Coolpad Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 186, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 2.1 to the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK$411 million during the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$1,163 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 consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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$720,660,000, prepaid land lease payments of HK$184,800,000 and intangible assets of HK$5,172,000 as at 31 December 2018. Management measures the respective recoverable amounts which are the higher of fair value less costs of disposal and their value in use. The recoverability of these assets is dependent on macroeconomic assumptions about future demands of smartphones and other intelligent devices, discount rates and exchange rates as well as internal assumptions related to future production levels and operating costs. These estimates are particularly significant due to the uncertain economic outlook, product price volatility, forecasted future production and market demand. The outcome of impairment assessment can vary significantly when different assumptions are applied. The relevant disclosures for the Group's non-current assets are included in notes 3, 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 non-current 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 valuer employed by the Group. We involved our valuation specialists in obtaining independently the estimated market values of these assets and comparing them to the respective carrying amounts. For the Group's other non-current assets such as intangible assets, leasehold improvements, motor vehicles and other property, plant and equipment, management determined their recoverable amounts based on their value in use using a discounted cash flow model for the cash-generating unit to which they are allocated. 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 in assisting us to evaluate 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.

Other information included in the Annual Report

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

Independent Auditor's Report

Auditor's responsibilities for the audit of the consolidated financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hui Kin Fai, Stephen.

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

29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**1,277,164**	3,378,077
Cost of sales		**(1,349,097)**	(3,696,480)
Gross loss		**(71,933)**	(318,403)
Other income and gains	5	**213,368**	367,440
Gain/(loss) on loss of control of subsidiaries, net	33	**94,590**	(534)
Impairment of investments in associates	18	**(6,657)**	(453,694)
Selling and distribution expenses		**(158,007)**	(667,863)
Administrative expenses		**(323,082)**	(709,261)
Other expenses		**(47,038)**	(752,782)
Finance costs	7	**(37,141)**	(26,248)
Share of losses of:			
A joint venture		**(779)**	(3,765)
Associates		**(82,729)**	(137,141)
LOSS BEFORE TAX	6	**(419,408)**	(2,702,251)
Income tax credit/(expense)	10	**8,746**	(20,825)
LOSS FOR THE YEAR		**(410,662)**	(2,723,076)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments		**–**	377
Exchange differences on translation of foreign operations		**32,126**	40,113
Reclassification adjustment for foreign operations disposed of during the year	33	**5,820**	111
Share of other comprehensive (loss)/income of:			
A joint venture		**(4,496)**	6,560
Associates		**(23,800)**	21,549
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**9,650**	68,710

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Gain/(loss) on property revaluation		**39,286**	(37,059)
Income tax effect	*30*	**(9,821)**	5,940
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**29,465**	(31,119)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**39,115**	37,591
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(371,547)**	(2,685,485)
Loss for the year attributable to:			
Owners of the Company		**(409,321)**	(2,674,457)
Non-controlling interests		**(1,341)**	(48,619)
		(410,662)	(2,723,076)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(370,113)**	(2,636,943)
Non-controlling interests		**(1,434)**	(48,542)
		(371,547)	(2,685,485)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*12*	**HK cents**	HK cents
Basic and diluted		**(8.13)**	**(53.14)**

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**843,867**	943,870
Investment properties	14	**222,563**	120,013
Prepaid land lease payments	15	**184,800**	271,171
Intangible assets	16	**5,172**	12,855
Investment in a joint venture	17	**101,402**	106,677
Investments in associates	18	**339,225**	448,468
Available-for-sale investments	24	**–**	34,921
Equity investments at fair value through profit or loss	24	**139,932**	–
Loans receivable	22	**4,076**	18,266
Other non-current assets	23	**14,310**	26,825
Deferred tax assets	30	**660**	8,278
Total non-current assets		**1,856,007**	1,991,344
CURRENT ASSETS			
Inventories	19	**194,955**	395,569
Trade receivables	20	**179,850**	616,478
Bills receivable	21	**8,967**	11,572
Short-term loans receivable	22	**4,600**	64,710
Prepayments, deposits and other receivables	23	**560,945**	1,160,450
Amounts due from associates	38	**27,922**	43,801
Pledged deposits	25	**114,966**	115,776
Cash and cash equivalents	25	**168,554**	451,130
Total current assets		**1,260,759**	2,859,486
CURRENT LIABILITIES			
Trade payables	26	**252,664**	756,397
Bills payable	27	**–**	45,934
Other payables and accruals	28	**1,609,156**	1,886,662
Interest-bearing bank and other borrowings	29	**–**	684,966
Amounts due to associates	38	**248,891**	277,082
An amount due to a related party	38	**202,129**	–
Tax payable		**110,907**	113,909
Total current liabilities		**2,423,747**	3,764,950
NET CURRENT LIABILITIES		**(1,162,988)**	(905,464)
TOTAL ASSETS LESS CURRENT LIABILITIES		**693,019**	1,085,880

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**693,019**	1,085,880
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*29*	**228,258**	239,260
Deferred tax liabilities	*30*	**45,335**	55,823
Other non-current liabilities		**4,759**	1,381
Total non-current liabilities		**278,352**	296,464
Net assets		**414,667**	789,416
EQUITY			
Equity attributable to owners of the Company			
Share capital	*31*	**50,334**	50,334
Reserves	*31*	**363,879**	793,592
		414,213	843,926
Non-controlling interests		**454**	(54,510)
Total equity		**414,667**	789,416

Chen Jiajun
Director

Leung Siu Kee
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Notes	Share capital HK$'000 (note 31(a))	Share premium account HK$'000 (note 31(b))	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000
		Attributable to owners				
At 31 December 2017		**50,334**	**1,235,632**	**390**	**130,416**	**(2,314)**
Effect of adoption of HKFRS 9	*2.2*	–	–	–	–	**2,314**
At 1 January 2018 (restated)		**50,334**	**1,235,632**	**390**	**130,416**	–
Loss for the year		–	–	–	–	–
Other comprehensive (loss)/income for the year:						
Gain on property revaluation, net of tax		–	–	–	**29,465**	–
Exchange differences on translation of foreign operations		–	–	–	–	–
Reclassification adjustment for foreign operations disposed of during the year	*33*	–	–	–	–	–
Share of other comprehensive loss of:						
A joint venture		–	–	–	–	–
Associates		–	–	–	–	–
Total comprehensive (loss)/income for the year		–	–	–	**29,465**	–
Acquisition of non-controlling interests		–	–	–	–	–
Transfer of property revaluation reserve upon disposal of investment properties		–	–	–	**(51,950)**	–
Share of changes to other equity of associates		–	–	–	–	–
Equity-settled share option arrangements	*32*	–	–	–	–	–
Appropriation to statutory reserve		–	–	–	–	–
Disposal of subsidiaries		–	–	–	–	–
At 31 December 2018		**50,334**	**1,235,632***	**390***	**107,931***	**–***

* These reserve accounts comprise the consolidated reserves of HK$363,879,000 (2017: HK$793,592,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

of the Company

Statutory reserve HK$'000 *(note 31(b))*	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000 *(note 31(b))*	Other reserve HK$'000 *(note 31(b))*	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
200,525	126,006	43,564	1,870	1,649,638	(39,288)	(2,552,847)	843,926	(54,510)	789,416
–	–	–	–	–	–	79,854	82,168	–	82,168
200,525	126,006	43,564	1,870	1,649,638	(39,288)	(2,472,993)	926,094	(54,510)	871,584
–	–	–	–	–	–	(409,321)	(409,321)	(1,341)	(410,662)
–	–	–	–	–	–	–	29,465	–	29,465
–	–	–	–	–	32,219	–	32,219	(93)	32,126
–	–	–	–	–	5,820	–	5,820	–	5,820
–	–	–	–	–	(4,496)	–	(4,496)	–	(4,496)
–	–	–	–	–	(23,800)	–	(23,800)	–	(23,800)
–	–	–	–	–	9,743	(409,321)	(370,113)	(1,434)	(371,547)
–	–	–	–	(79,194)	–	–	(79,194)	56,494	(22,700)
–	–	–	–	–	–	51,950	–	–	–
–	–	–	–	430	–	–	430	–	430
–	(63,004)	–	–	–	–	–	(63,004)	–	(63,004)
1,035	–	–	–	–	–	(1,035)	–	–	–
–	–	–	–	–	–	–	–	(96)	(96)
201,560*	63,002*	43,564*	1,870*	1,570,874*	(29,545)*	(2,831,399)*	414,213	454	414,667

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

		Attributable to owners				
	Notes	Share capital HK$'000 *(note 31(a))*	Share premium account HK$'000 *(note 31(b))*	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000
At 1 January 2017		50,326	1,235,203	390	161,535	(2,691)
Loss for the year		–	–	–	–	–
Other comprehensive (loss)/income for the year:						
Loss on property revaluation, net of tax		–	–	–	(31,119)	–
Changes in fair value of available-for-sale investments		–	–	–	–	377
Exchange differences on translation of foreign operations		–	–	–	–	–
Reclassification adjustment for a foreign operation disposed of during the year	*33*	–	–	–	–	–
Share of other comprehensive income of:						
A joint venture		–	–	–	–	–
Associates		–	–	–	–	–
Total comprehensive (loss)/income for the year		–	–	–	(31,119)	377
Issue of shares upon exercise of share options		8	429	–	–	–
Equity-settled share option arrangements	*32*	–	–	–	–	–
Appropriation to statutory reserve		–	–	–	–	–
Disposal of a subsidiary		–	–	–	–	–
Share of changes to other equity of associates		–	–	–	–	–
At 31 December 2017		50,334	1,235,632*	390*	130,416*	(2,314)*

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

of the Company

Statutory reserve HK$'000 *(note 31(b))*	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000 *(note 31(b))*	Other reserve HK$'000 *(note 31(b))*	Exchange fluctuation reserve HK$'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 Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(419,408)**	(2,702,251)
Adjustments for:			
Bank and other interest income	5	**(7,958)**	(41,246)
Finance costs	7	**37,141**	26,248
Share of loss of a joint venture		**779**	3,765
Share of losses of associates		**82,729**	137,141
Depreciation	6	**40,732**	76,880
Changes in fair value of investment properties	5	**(3,343)**	(5,906)
Changes in fair value of certain property, plant and equipment	6	**–**	136,769
Amortisation of patents, licences and computer software	6	**1,500**	1,462
Amortisation of product development costs	6	**5,859**	13,432
Amortisation of prepaid land lease payments	6	**4,948**	7,633
Loss on disposal of investment properties	6	**13,167**	–
Loss on disposal of items of property, plant and equipment	6	**14,059**	370
(Gain)/loss on disposal of a parcel of land	6	**(5,383)**	46,739
(Gain)/loss on disposal of investments in associates	6	**(26)**	6,031
(Gain)/loss of control of subsidiaries, net	33	**(94,590)**	534
Gain on disposal of certain interests in a joint venture	6	**–**	(35)
Fair value gains on equity investments at fair value through profit or loss	5	**(21,557)**	–
Impairment of financial assets, net	6	**11,297**	173,000
Impairment of investments in associates	6	**6,657**	453,694
Write-down of inventories at net realisable value	6	**16,643**	53,021
Reversal of equity-settled share option expense, net	6	**(63,004)**	(28,086)
Interest income received in respect of certain equity investments at fair value through profit or loss/available-for-sale investments		**(6,057)**	(1,653)
Unrealised exchange difference		**48,770**	(55,964)
		(337,045)	(1,698,422)
Decrease in other non-current assets		**3,766**	15,586
Decrease in inventories		**155,554**	958,491
Decrease in trade receivables		**434,182**	206,589
Decrease in bills receivable		**2,605**	70,919
Decrease in loans receivable		**72,015**	320,206
Decrease in prepayments, deposit and other receivables		**579,558**	447,552
Decrease in an amount due from a director		**–**	500
Increase in amounts due from associates		**(2,412)**	(69,132)
Decrease in amounts due from other related parties		**–**	182,683
Decrease in trade payables		**(448,782)**	(1,055,993)
Decrease in bills payable		**(42,577)**	(1,293,323)
(Decrease)/increase in other payables and accruals		**(182,961)**	148,061
(Decrease)/increase in amounts due to associates		**(7,780)**	1,857
Decrease in an amount due to a joint venture		**–**	(4,406)
Decrease in an amount due to a related party		**–**	(51,133)
Increase/(decrease) in other non-current liabilities		**3,702**	(8,472)
Cash generated from/(used in) operations		**229,825**	(1,828,437)
Tax paid		**(1,894)**	(5,210)
Net cash flows from/(used in) operating activities		**227,931**	(1,833,647)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**7,958**	52,766
Loans advanced to certain third parties		**–**	(546,668)
Repayment of loans advanced to certain third parties		**–**	546,668
Investment income from certain equity investments at fair value through profit or loss/available-for-sale investments		**6,057**	1,653
Purchases of items of property, plant and equipment		**(211,827)**	(115,927)
Proceeds from disposal of items of property, plant and equipment		**21,439**	7,987
Proceeds from disposal of a parcel of land		**34,508**	45,831
Proceeds from disposal of interests in associates		**20,700**	4,210
Proceeds from disposal of equity investments at fair value through profit or loss		**541**	–
Net inflow of cash in respect of the disposal of subsidiaries	*33*	**127,892**	192
Additional investments in associates		**–**	(9,570)
Additions to equity investment at fair value through profit or loss/available-for-sale investments		**(10,648)**	(2,049)
Withdrawal of an available-for-sale investment		**–**	611
Cash transferred to restricted bank deposits		**(391,276)**	(570,396)
Cash transferred from restricted bank deposits		**386,592**	832,112
Repayment in respect of a potential equity investment		**–**	932,002
Net cash flows (used in)/from investing activities		**(8,064)**	1,179,422
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options		**–**	272
Acquisition of non-controlling interests		**(4,306)**	–
New bank and other borrowings		**11,843**	915,588
Repayment of bank and other borrowings		**(684,419)**	(1,175,089)
Interest paid		**(18,404)**	(19,121)
Increase in an amount due to a related party		**206,405**	–
Advance received in respect of a proposed issue of convertible bonds		**–**	58,195
Net cash flows used in financing activities		**(488,881)**	(220,155)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(269,014)**	(874,380)
Cash and cash equivalents at beginning of year		**451,130**	1,308,082
Effect of foreign exchange rate changes, net		**(13,562)**	17,428
CASH AND CASH EQUIVALENTS AT END OF YEAR		**168,554**	451,130
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*25*	**168,554**	451,130

Notes to Financial Statements

31 December 2018

1. Corporate and Group Information

Coolpad Group Limited is a limited liability company incorporated in the Cayman Islands. The registered address of the Company (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. During the year, the Group continued to focus on the production and sale of mobile phones and accessories, and the provision of wireless application services 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		Principal activities
			Direct	Indirect	
Yulong Infotech Inc.	The British Virgin Islands ("BVI")/ Mainland China	US$50,000	100	–	Investment holding
Digital Tech Inc.	BVI/ Mainland China	US$10	100	–	Investment holding
Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen")*	The People's Republic of China ("PRC")/ Mainland China	RMB503,000,000	–	100	Sale of mobile phones
Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad")*	PRC/ Mainland China	HK$10,000,000	–	100	Provision of product design and software development for mobile handsets
Dongguan Yulong Telecommunication Tech Co., Ltd. ("Dongguan Yulong")**	PRC/ Mainland China	RMB120,000,000	–	100	Manufacture of mobile phones
Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad")***	PRC/ Mainland China	RMB8,000,000	–	100	Provision of product design and software development for mobile handsets
Coolpad Overseas Limited	Hong Kong	US$1,550,000	–	100	Sale of mobile phones

Notes to Financial Statements

31 December 2018

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	Dormant
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	Dormant
Zhengzhou Coolpad Software Tech Co., Ltd. ("Zhengzhou Coolpad Software")***	PRC/ Mainland China	RMB100,000,000	–	100	Dormant
Zhengzhou Yulong Investment Management Co., Ltd.**	PRC/ Mainland China	RMB50,000,000	–	60	Dormant

Notes to Financial Statements

31 December 2018

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		Principal activities
			Direct	Indirect	
Jiangxi Yulong communication Technology Co., Ltd.	PRC/ Mainland China	RMB400,000,000	–	100	Dormant
Zhengzhou Coolpad Properties Co., Ltd.**	PRC/ Mainland China	RMB50,000,000	–	60	Dormant
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	RMB500,000	–	100	Investment holding
Shenzhen Juhechengzhang Investment Partnership Co., Ltd. ("Shenzhen Juhechengzhang")***	PRC/ Mainland China	RMB10,000,000	–	100	Investment holding
Hunan Helongsheng Trading Co., Ltd. ("Hunan Helongsheng")**	PRC/ Mainland China	RMB10,000,000	–	60	Dormant
Dongguan Yikuaixiu Technology Co., Ltd.	PRC/ Mainland China	RMB10,000,000	–	100	Repair service
Coolpad Information Technologies Research Institute (Shenzhen) Co., Ltd.***	PRC/ Mainland China	RMB30,000,000	–	100	Product design and software development
Coolpad International Holding (Shenzhen) Co., Ltd.***	PRC/ Mainland China	RMB600,000,000	–	100	Investment holding

Notes to Financial Statements

31 December 2018

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
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
Coolpad Technologies India Pvt Ltd.	India	INR65,000,000	–	100	Sale of mobile phones
Chongqing Yuku Intelligent Technology Co., Ltd.***	PRC/ Mainland China	RMB100,000,000	–	100	Dormant
Chongqing Yukuyupai Intelligent Technology Co., Ltd.***	PRC/ Mainland China	RMB100,000,000	–	100	Dormant
Shenzhen Yikuaixiu Technology Co., Ltd.***	PRC/ Mainland China	RMB10,000,000	–	100	Dormant
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 PRC law.

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

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

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

As disclosed in note 33 to the financial statements, Fujian Helongsheng Scientific Co., Ltd. ("Fujian Helongsheng"), Xi'an Kumei Intelligent Technology Co., Ltd. ("Xi'an Kumei") and Nanjing Yulong Investment Management Ltd. ("Nanjing Yulong") were subsidiaries of the Group as at 31 December 2017 and were disposed of in 2018.

Notes to Financial Statements

31 December 2018

2.1 Basis of Preparation

These consolidated 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 in property, plant and equipment, and the equity investments at fair value through profit or loss which have been measured at fair value. These consolidated 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 approximately HK$411 million for the current year and net current liabilities of approximately HK$1,163 million as at 31 December 2018. The unrestricted cash and cash equivalent balance amounted to approximately HK$169 million as at 31 December 2018. As at that date, the Group's capital commitment in respect of the capital expenditure for its construction in progress to be incurred in the coming twelve months was approximately HK$561 million. These circumstances may cast significant doubt on the Group's ability to continue as a going concern.

During the year, the Company's directors have taken various measures with an aim to improve the Group's liquidity position, including but not limited to, i) the successful draw-down of loans from Kingkey Group Company Limited (京基集團有限公司) ("Kingkey Group"); ii) the disposal of its 80% equity interest in a wholly-owned subsidiary, under which there was a parcel of land, for a cash consideration of approximately HK$114 million; and iii) the disposal of certain investment properties located in Shenzhen, the PRC, with the related proceeds of approximately HK$113 million.

Further measures have been taken by or in the deliberation of the Company's directors to improve the liquidity position of the Group. On 20 March 2019, the Group and Kingkey Group entered into a supplementary agreement, pursuant to which, Kingkey Group agreed to grant the extension of the terms in connection with the loans drawn down under the loan agreement on 18 May 2018 from 12 months to 36 months. Up to the date of this report, the cumulative loan amount drawn down by the Group was approximately HK$258 million. The remaining undrawn loan balance was approximately HK$326 million.

2.1 Basis of Preparation (Continued)

Going Concern Basis (Continued)

The Company's directors have prepared a cash flow forecast of the Group for the next twelve months based on the existing situation, the future events and commitments of the Group. The Company's directors considered that the Group will have adequate working capital to meet its obligations, therefore the consolidated financial statements of the Group have been prepared under a going concern basis. Measures and estimations have been taken into consideration by the Company's directors, including but not limited to:

(i) The Group has been actively negotiating with the banks to obtain additional loans to supplement its operating cash flows. Based on the communication between the banks and the Group, among others, up to the date of this report, the Group may be able to obtain additional loan facilities amounting to approximately RMB200 million. Nevertheless, the confirmation of these facilities is subject to the final approval from the banks.

(ii) The Group kept revisiting the disposal plan of long term assets. The Group initiated the negotiations with the potential buyers in respect of its land and properties under construction in Xi'an city, the PRC, during the year. The Company's directors expected the successful disposal could generate additional cash flow for the Group.

(iii) The Group has revisited its capital expenditure plan in the coming twelve months and has considered to postpone the current constructions in progress depending on the sufficiency of the working capital and the Group's capability in obtaining the finance resources. In the view of the Company's directors, the deferral of the capital expenditure would mitigate the pressure on the demand of operating fund in the coming twelve months.

(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.

Notwithstanding the above, given the volatility of the new generation mobile phone business and the uncertainties to obtain continuous support by the banks and the Group's creditors, material uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above.

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 2018. 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.

Notes to Financial Statements

31 December 2018

2.1 Basis of Preparation (Continued)

Basis of Consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

Notes to Financial Statements

31 December 2018

2.2 Changes in Accounting Policies and Disclosures

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

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

Other than as further explained below, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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

The Group has applied HKFRS 9 retrospectively, and has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and Measurement

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

Notes to Financial Statements

31 December 2018

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) (Continued)

Classification and Measurement (Continued)

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

		HKAS 39 measurement					HKFRS 9 measurement	
	Notes	Category	Amount HK$'000	Reclassification HK$'000	ECL HK$'000	Fair value remeasurement under HKFRS 9 HK$'000	Amount HK$'000	Category
Financial assets								
Equity investments at fair value through profit or loss		N/A	–	34,921	–	82,539	117,460	FVPL[4]
From: Available-for-sale investments	*(i)*			34,921	–	–		
Available-for-sale investments		AFS[1]	34,921	(34,921)	–	–	–	N/A
To: Equity investments at fair value through profit or loss	*(i)*			(34,921)	–	–		
Trade receivables	*(ii)*	L&R[2]	616,478	–	(371)	–	616,107	AC[3]
Bills receivable		L&R	11,572	–	–	–	11,572	AC
Loans receivable		L&R	82,976	–	–	–	82,976	AC
Financial assets included in prepayments, deposits and other receivable		L&R	76,543	–	–	–	76,543	AC
Amounts due from associates		L&R	43,801	–	–	–	43,801	AC
Pledged deposits		L&R	115,776	–	–	–	115,776	AC
Cash and cash equivalents		L&R	451,130	–	–	–	451,130	AC
Total assets			1,433,197	–	(371)	82,539	1,515,365	

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) (Continued)

Classification and Measurement (Continued)

	HKAS 39 measurement		HKFRS 9 measurement	
	Category	**Amount HK$'000**	**Amount HK$'000**	**Category**
<u>Financial liabilities</u>				
Trade and bills payables	AC	802,331	802,331	AC
Financial liabilities included in other payables and accruals	AC	1,464,974	1,464,974	AC
Interest-bearing bank and other borrowings	AC	924,226	924,226	AC
Amounts due to associates	AC	277,082	277,082	AC
Total liabilities		3,468,613	3,468,613	

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

Notes:

(i) The Group has elected the option to irrevocably designate all of its previous available-for-sale equity investments as equity investments at fair value through profit and loss.

(ii) The carrying amount of the trade receivables under the column "HKAS 39 measurement – Amount" represent the amount before the measurement of ECLs.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 20 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 HK$'000	Re-measurement HK$'000	ECL allowances under HKFRS 9 at 1 January 2018 HK$'000
Trade receivables	308,312	371	308,683

Notes to Financial Statements

31 December 2018

2.2 Changes in Accounting Policies and Disclosures (Continued)

(a) (Continued)

Impact on Reserves and Accumulated Losses

The impact of transition to HKFRS 9 on reserves and accumulated losses as at 1 January 2018 is as follows:

	Increase in available-for-sale investment revaluation reserve HK$'000	Decrease/ (increase) in accumulated losses HK$'000	Increase/ (decrease) in equity attributable to owners of the Company HK$'000
Reclassification of available-for-sale investment revaluation reserve to accumulated losses as a result of reclassification of equity investments at fair value through profit or loss under HKFRS 9	2,314	(2,314)	–
Recognition of ECL allowance for trade receivables under HKFRS 9	–	(371)	(371)
Fair value remeasurement for equity investments previously measured at cost under HKAS 39	–	82,539	82,539
	2,314	79,854	82,168

	HK$'000
Accumulated losses	
Balance as at 31 December 2017 as previously reported	(2,552,847)
Recognition of expected credit losses for trade receivables under HKFRS 9	(371)
Reclassification of available-for-sale investment to equity investments revaluation reserve as a result of reclassification of equity investments at fair value through profit or loss under HKFRS 9	(2,314)
Fair value remeasurement for equity investments previously measured at cost under HKAS 39	82,539
Balance as at 1 January 2018 (restated)	(2,472,993)

Details of the relevant accounting policies under HKFRS 9 applicable from 1 January 2018 and accounting policies under HKAS 39 applicable before 1 January 2018, respectively, are set out in note 3 to the financial statements.

2.2 Changes in Accounting Policies and Disclosures (Continued)

(b) HKFRS 15 and its amendments replaces HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, 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 disclosures are included in note 5 to the financial statements.

The Group has adopted HKFRS15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was immaterial and no opening balance of retained profits as at 1 January 2018 was adjusted. Therefore, the comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

The application of HKFRS 15 in the current year has had no material impact on the amounts reported in the Group's consolidated financial statements.

2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

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

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Mandatory effective date not yet determined but available for early adoption

Notes to Financial Statements

31 December 2018

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

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

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

HKFRS 16 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.

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

Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$27,483,000 and lease liabilities of HK$22,453,000 will be recognised at 1 January 2019.

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

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

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.

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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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Fair Value Measurement (Continued)

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.

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 buildings stated at fair value), 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.

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2.4 Summary of Significant Accounting Policies (Continued)

Impairment of Non-Financial Assets (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost 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.

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.

Costs 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 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.

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2.4 Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment and Depreciation (Continued)

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.

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible Assets (Other than Goodwill) (Continued)

Research and Development Costs

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

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 lives 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.

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the 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.

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2.4 Summary of Significant Accounting Policies (Continued)

Investments and Other Financial Assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial Recognition and Measurement

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

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

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

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

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

Subsequent Measurement

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

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

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

2.4 Summary of Significant Accounting Policies (Continued)

Investments and Other Financial Assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent Measurement (Continued)

Financial Assets at Fair Value through Profit or Loss (Continued)

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

Financial Assets at Amortised Cost (Debt Instruments)

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

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

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

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

Investments and Other Financial Assets (policies under HKAS 39 applicable before 1 January 2018)

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.

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2.4 Summary of Significant Accounting Policies (Continued)

Investments and Other Financial Assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

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.

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 income and gains". 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 (applicable before 1 January 2018)" 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.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of Financial Assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

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

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

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

Impairment of Financial Assets (policies under HKFRS 9 applicable from 1 January 2018)

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

General Approach

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

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

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2.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

General Approach (Continued)

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

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

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

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

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

Simplified Approach

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

Impairment of Financial Assets (policies under HKAS 39 applicable before 1 January 2018)

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.

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2.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Financial Assets Carried at Amortised Cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not 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 2018

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (policies under HKAS 39 applicable before 1 January 2018) (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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial Recognition and Measurement

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

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

The Group's financial liabilities include trade and other payables, amounts due to associates, an amount due to a related party 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.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of Financial Liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

Offsetting of Financial Instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

Inventories

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

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.

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.

Notes to Financial Statements

31 December 2018

2.4 Summary of Significant Accounting Policies (Continued)

Provisions (Continued)

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

Income Tax

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

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

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

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

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

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

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.

2.4 Summary of Significant Accounting Policies (Continued)

Income Tax (Continued)

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

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

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

Government Grants 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.

Revenue Recognition (applicable from 1 January 2018)

Revenue from Contracts with Customers

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

(a) Sale of Industrial Products

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

(b) Installation Services

Installation services are recognised at the point in time when the specific installation and activation requirement has been met.

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2.4 Summary of Significant Accounting Policies (Continued)

Revenue Recognition (applicable from 1 January 2018) (Continued)

Revenue from Contracts with Customers (Continued)

(c) Financing Service Income

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

Revenue from Other Sources

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

Other Income

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

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

Revenue Recognition (applicable before 1 January 2018)

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

(a) from the sale of goods, 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 is 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.

2.4 Summary of Significant Accounting Policies (Continued)

Contract Liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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.

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.

Notes to Financial Statements

31 December 2018

2.4 Summary of Significant Accounting Policies (Continued)

Share-based Payments (Continued)

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.

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).

2.4 Summary of Significant Accounting Policies (Continued)

Foreign Currencies (Continued)

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

The functional currency of the subsidiaries in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rate prevailing at the end of the reporting period and profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

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:

Going Concern Consideration

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

Notes to Financial Statements

31 December 2018

3. Significant Accounting Judgements and Estimates (Continued)

Judgements (Continued)

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.

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$261,466,000 (2017: HK$255,243,000) (note 30).

3. Significant Accounting Judgements and Estimates (Continued)

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

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 2018, the best estimate of the carrying amount of provision for product warranties was HK$21,083,000 (2017: HK$27,133,000) (note 28).

Provision for Expected Credit Losses on Trade Receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

Notes to Financial Statements

31 December 2018

3. Significant Accounting Judgements and Estimates (Continued)

Estimation Uncertainty (Continued)

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 2018, the carrying amount of inventories was approximately HK$194,955,000 (2017: HK$395,569,000) after netting off the allowance for inventories of approximately HK$190,638,000 (2017: HK$234,426,000).

Deferred Tax Assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of accumulated unrecognised tax losses at 31 December 2018 was HK$792,594,000 (2017: HK$404,416,000). Further details are set out in note 30 to the financial statements.

Impairment of Long-term Non-financial Assets (Other than Goodwill)

The Group assesses whether there are any indicators of impairment for all long-term 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.

Provision for Compensation to Suppliers

The Group made provision for the compensation to suppliers regarding the cancellation of orders placed for procurement of raw materials yet to be received. Management estimated the provision at their best efforts for the possible amounts to be claimed by the suppliers based on historical settlement patterns and their negotiation status of each vendor affected. At 31 December 2018, the amount of the provision for compensation to suppliers was approximately HK$151,320,000 (2017: HK$243,077,000).

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/(loss) on loss of control of subsidiaries, impairment of investments in associates, finance costs and share of losses of a joint venture and associates as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude investment in a joint venture, investments in associates, available-for-sale investments/equity investments at fair value through profit or loss, deferred tax assets, amounts due from associates, 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 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 2018

4. Operating Segment Information (Continued)

Year ended 31 December 2018

	Mobile phone HK$'000	Property investment HK$'000	Financing service HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	1,276,091	–	1,073	1,277,164
Other revenue and gains	184,767	20,643	–	205,410
Total	1,460,858	20,643	1,073	1,482,574
Segment results	(395,578)	18,567	(1,674)	(378,685)
Reconciliation:				
Interest income				7,958
Gain on loss of control of subsidiaries, net				94,590
Impairment of investments in associates				(6,657)
Finance costs				(37,141)
Share of loss of a joint venture				(779)
Share of losses of associates				(82,729)
Corporate and other unallocated expenses				(15,965)
Loss before tax				(419,408)
Segment assets	1,989,885	224,911	9,309	2,224,105
Reconciliation:				
Investment in a joint venture				101,402
Investments in associates				339,225
Corporate and other unallocated assets				452,034
Total assets				3,116,766
Segment liabilities	1,802,574	2,564	–	1,805,138
Reconciliation:				
Corporate and other unallocated liabilities				896,961
Total liabilities				2,702,099
Other segment information:				
Impairment of financial assets, net	11,297	–	–	11,297
Write-down of inventories to net realisable value	16,643	–	–	16,643
Fair value gain on investment properties	–	3,343	–	3,343
Product warranty provision	3,114	–	–	3,114
Depreciation and amortisation	53,017	–	22	53,039
Capital expenditure*	249,671	–	–	249,671

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

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
Segment revenue				
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 loss of a joint venture				(3,765)
Share of losses of associates				(137,141)
Loss before tax				(2,702,251)
Segment assets	3,432,818	124,375	84,586	3,641,779
Reconciliation:				
Investment in a joint venture				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	–	2,631,572
Reconciliation:				
Corporate and other unallocated liabilities				1,429,842
Total liabilities				4,061,414
Other segment information:				
Impairment of financial assets	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.

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4. Operating Segment Information (Continued)

Geographical Information

(a) Revenue from External Customers

	2018 HK$'000	2017 HK$'000
Mainland China	**193,184**	1,476,597
Overseas	**1,083,980**	1,901,480
	1,277,164	3,378,077

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

(b) Non-current Assets

	2018 HK$'000	2017 HK$'000
Mainland China	**1,707,350**	1,923,781
Overseas	**3,989**	6,098
	1,711,339	1,929,879

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	2018 HK$'000	2017 HK$'000
Customer A	Mobile phone	**812,119**	1,142,714

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5. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Sale of mobile phones and related accessories	**1,261,393**	3,263,892
Wireless application service income	**14,698**	86,099
Financing service income	**1,073**	28,086
	1,277,164	3,378,077

Revenue from Contracts with Customers

(i) Disaggregated Revenue Information

For the year ended 31 December 2018

Segment	Mobile phone HK$'000	Financing service HK$'000	Total HK$'000
Timing of revenue recognition:			
Goods and services transferred at a point of time	**1,276,091**	**–**	**1,276,091**
Financing income recognised overtime	**–**	**1,073**	**1,073**
	1,276,091	**1,073**	**1,277,164**

The following table shows the amounts of revenue recognised in the current year that were included in the contract liabilities at 1 January 2018:

	2018 HK$'000
Sale of mobile phones and related accessories	**45,100**

No revenue recognised during the year related to performance obligations that were satisfied in prior years.

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5. Revenue, Other Income And Gains (Continued)

Revenue from Contracts with Customers (Continued)

(ii) Performance Obligation

Information about the Group's performance obligations is summarised below:

Sale of Mobile Phones and Related Accessories

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

Other income and gains	Note	2018 HK$'000	2017 HK$'000
Bank interest income		**7,958**	6,722
Other interest income		**–**	34,524
Government grants and subsidies*		**76,646**	143,434
Gross rental income		**17,300**	10,599
Dividend income from investments		**6,057**	1,653
Sales of scrap materials		**13,711**	–
Fair value gain on investment properties	*14*	**3,343**	5,906
Change in foreign exchange difference, net		**–**	59,836
Various services income		**21,662**	69,095
Gain on disposal of a parcel of land		**5,383**	–
Fair value gain on equity investments at fair value through profit or loss, net		**21,557**	–
After-sales repair service		**6,360**	–
Others		**33,391**	35,671
		213,368	367,440

* 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.

6. Loss Before Tax

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**1,332,454**	3,643,459
Depreciation	*13*	**40,732**	76,880
Amortisation of intangible assets	*16*	**1,500**	1,462
Amortisation of prepaid land lease payments	*15*	**4,948**	7,633
Research and development costs*:			
Product development costs amortised	*16*	**5,859**	13,432
Current year expenditure		**107,843**	401,876
		113,702	415,308
Operating lease rental		**15,829**	34,682
Auditor's remuneration		**3,766**	3,884
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**213,456**	509,669
Staff welfare expenses		**14,221**	27,214
Pension scheme contributions (defined contribution scheme)		**17,952**	40,188
Equity-settled share option expense, net^	*32*	**(63,004)**	(28,086)
		182,625	548,985
Gain on disposal of certain interests in a joint venture		**–**	(35)
Impairment of other financial assets, net#		**15,918**	132,490
(Reversal of impairment)/impairment of trade receivables		**(4,621)**	40,510
Impairment of investments in associates	*18*	**6,657**	453,694
Loss on revaluation of property, plant and equipment#	*13*	**–**	136,769
Loss on disposal of items of property, plant and equipment#		**14,059**	370
(Gain)/loss on disposal of a parcel of land		**(5,383)**	46,739
(Gain)/loss on disposal of associates		**(26)**	6,031
Write-down of inventories to net realisable value&		**16,643**	53,021
Direct operating expenses arising on rental-earning investment properties		**2,076**	1,272
Product warranty provision	*28*	**3,114**	45,166
Fair value gain on equity investments at fair value through profit or loss, net		**(21,557)**	–
Loss on disposal of investment properties#		**13,167**	–
Foreign exchange differences, net		**70,937**	(59,836)

* Included in "Administrative expenses" in profit or loss
& Included in "Cost of sales" in profit or loss
# Included in "Other expenses" in profit or loss
^ 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$70,510,000 (2017: HK$55,317,000); and ii) recognition of equity-settled share option expenses amounting to HK$7,506,000 (2017: HK$27,231,000).

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7. Finance Costs

	2018 HK$'000	2017 HK$'000
Interest on:		
Bank and other borrowings	**29,555**	22,634
An amount due to a related party	**7,586**	–
Discounted bills receivable	**–**	3,614
	37,141	26,248

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:

	2018 HK$'000	2017 HK$'000
Fees	**720**	490
Other emoluments:		
Salaries, allowances and benefits in kind	**9,407**	8,444
Performance related bonuses	**–**	–
Equity-settled share option expense	**–**	(13,982)
Pension scheme contributions	**42**	64
	9,449	(5,474)
	10,169	(4,984)

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
2018			
Dr. HUANG Dazhan	**240**	**–**	**240**
Mr. XIE Weixin	**240**	**–**	**240**
Mr. CHAN King Chung	**240**	**–**	**240**
	720	**–**	**720**
2017			
Dr. HUANG Dazhan	160	–	160
Mr. XIE Weixin	170	–	170
Mr. CHAN King Chung	160	–	160
	490	–	490

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive Directors and Non-executive Directors

	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018				
Mr. JIANG Chao###	**7,513**	**–**	**42**	**7,555**
Mr. WU Weixiong##	**230**	**–**	**–**	**230**
Mr. LIANG Zhaoji##	**460**	**–**	**–**	**460**
Mr. LIU Hong***	**284**	**–**	**–**	**284**
Mr. LIN Tingfeng##	**460**	**–**	**–**	**460**
Mr. LIANG Rui##	**460**	**–**	**–**	**460**
	9,407	**–**	**42**	**9,449**

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8. Directors' Remuneration (Continued)

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

	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
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)

Resigned as executive directors on 31 August 2017

Appointed as executive directors on 19 January 2018

Ceased to be an executive director on 11 January 2019

* 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 (2017: Nil).

On 17 January 2019, Mr. CHEN Jiajun was appointed as an executive director and a chief executive officer of the Company.

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9. Five Highest Paid Employees

The five highest paid employees during the year included one director (2017: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5.906**	4,441
Equity-settled share option expense	**1,808**	3,001
Pension scheme contributions	**41**	79
	7,755	7,521

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

	2018	2017
HK$1,000,000 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**2**	–
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**1**	2
	4	3

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").

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10. Income Tax Expense (Continued)

No provision for Hong Kong profits tax has been made (2017: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group's subsidiaries operates, based on existing legislation, interpretations and practices in respect thereof.

	2018 HK$'000	2017 HK$'000
Current		
Charge for the year	**2,248**	22,543
Overprovision in prior years	**–**	(615)
Deferred *(note 30)*	**(10,994)**	(1,103)
Total tax (credit)/charge for the year	**(8,746)**	20,825

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:

	2018 HK$'000	2017 HK$'000
Loss before tax	**(419,408)**	(2,702,251)
Tax at the statutory tax rate	**(104,852)**	(675,563)
Effect of different tax rates for certain group entities	**26,637**	185,034
Adjustments in respect of current tax of previous periods	**–**	(615)
Losses attributable to a joint venture	**195**	941
Losses attributable to associates	**13,597**	22,019
Income not subject to tax	**(234)**	(248)
Expenses not deductible for tax	**2,436**	73,157
Additional deduction of research and development expenses	**(15,433)**	(24,322)
Effects of temporary differences	**(24,184)**	20,513
Tax losses not recognised	**93,092**	419,909
Tax (credit)/charge at the Group's effective rate	**(8,746)**	20,825

Notes to Financial Statements

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10. Income Tax Expense (Continued)

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) 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% (2017: 15%) for the year ended 31 December 2018.

(b) 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 three years from 2017 to 2019. Therefore, Xi'an Coolpad was subject to CIT at a rate of 15% (2017: 15%) for the year ended 31 December 2018.

(c) 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 25% (2017: 12.5%) for the year ended 31 December 2018.

(d) 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% (2017: 12.5%) for the year ended 31 December 2018.

11. Dividend

The directors did not recommend the payment of any dividends for the years ended 31 December 2018 and 2017.

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 (2017: 5,033,246,581) in issue during the year.

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2018 and 2017 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.

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13. Property, Plant and Equipment

	Notes	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 2018							
Cost or valuation:							
At 1 January 2018		499,184	22,089	281,937	21,306	515,541	1,340,057
Additions		–	–	15,436	–	234,235	249,671
Deficit on revaluation		(6,219)	–	–	–	–	(6,219)
Transfer to investment properties	*14*	(178,805)	–	–	–	–	(178,805)
Disposals		(2,120)	(4,974)	(50,191)	(12,056)	(25,601)	(94,942)
Disposal of a subsidiary	*33*	–	–	–	–	(50,941)	(50,941)
Transfers		1,596	–	520	–	(2,116)	–
Exchange realignment		(16,212)	(834)	(11,596)	(503)	(31,426)	(60,571)
At 31 December 2018		297,424	16,281	236,106	8,747	639,692	1,198,250
Accumulated depreciation and impairment:							
At 1 January 2018		157,980	19,821	203,632	14,754	–	396,187
Depreciation provided during the year		17,388	1,236	19,980	2,128	–	40,732
Transfer to investment properties	*14*	(5,823)	–	–	–	–	(5,823)
Disposals		(2,120)	(4,974)	(41,499)	(10,851)	–	(59,444)
Exchange realignment		(7,609)	(774)	(8,528)	(358)	–	(17,269)
At 31 December 2018		159,816	15,309	173,585	5,673	–	354,383
Net book value:							
At 31 December 2018		137,608	972	62,521	3,074	639,692	843,867

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 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"), were 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 deficit against revaluation reserve of HK$52,436,000 in respect of these buildings. As the revaluation reserve of these buildings was insufficient to cover their revaluation deficit of HK$189,205,000 in prior year, the excess of the deficit, amounting to HK$136,769,000, had been charged to profit or loss (note 6).

Notes to Financial Statements

31 December 2018

13. Property, Plant and Equipment (Continued)

At 31 December 2018, the Group had yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$35,764,000 (2017: HK$68,749,000).

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$123,207,000 (2017: HK$325,291,000) as at 31 December 2018 based on their existing use. As a result, the Group recorded a revaluation deficit of HK$6,219,000 charged to other comprehensive income for the current year (2017: HK$173,828,000 with the corresponding side of which was charged to other comprehensive loss of HK$37,059,000 and profit or loss of HK$136,769,000). Certain properties were transferred to investment properties during the year ended 31 December 2018 and a gain on revaluation for these properties up to the date of change-in-use was credited to other comprehensive income, details of which are included in note 14 to the financial statements.

There was no property, plant and equipment pledged as security for liability as at 31 December 2018 while as 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 were pledged to secure general banking facilities granted to the Group.

As at 31 December 2018, included in the Group's property, plant and equipment, certain buildings with carrying amount of HK$123,207,000 (2017: HK$325,291,000) were stated at fair value using revaluation model. And the remaining property, plant and equipment (including construction in progress) with carrying amount of HK$720,660,000 (2017: HK$618,579,000) were carried at historical cost.

Notes to Financial Statements

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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 2018 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	**–**	**–**	**123,207**	**123,207**

	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

Notes to Financial Statements

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13. Property, Plant and Equipment (Continued)

Fair value Hierarchy (Continued)

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	
	2018	2017
	HK$'000	HK$'000
Carrying amount at 1 January	**325,291**	496,438
Transfer from construction in progress	**1,596**	7,715
Transfer to investment properties	**(172,982)**	–
Depreciation provided during the year	**(16,576)**	(32,490)
Deficit on revaluation recognised in other comprehensive income	**(6,219)**	(37,059)
Deficit on revaluation recognised in other expenses in profit or loss	**–**	(136,769)
Exchange realignment	**(7,903)**	27,456
Carrying amount at 31 December	**123,207**	325,291

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

	Valuation technique	Significant unobservable inputs	**Range or weighted average 2018**	Range or weighted average 2017
Industrial properties	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.)	**a. 1,092 to 3,299**	a. 1,061 to 6,317
		b. Administrative expense rate	**b. 3%**	b. 3%
		c. Unpredictable expense rate	**c. 3%**	c. 3%
		d. Rate of newness	**d. 80% to 90%**	d. 0.83%*, 91% to 98%

* 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 commercial purposes. For strategic reasons, the properties are not being used in this manner.

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

14. Investment Properties

	Notes	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January		**120,013**	106,427
Transferred from owner-occupied property	*13*	**172,982**	–
Transferred from land use right	*15*	**9,125**	–
Surplus on revaluation recognised in other comprehensive income upon change-in-use		**45,505**	–
Disposal		**(118,812)**	–
Net gain from a fair value adjustment recognised in profit or loss	*5*	**3,343**	5,906
Exchange realignment		**(9,593)**	7,680
Carrying amount at 31 December		**222,563**	120,013

* The Group transferred certain manufacturing buildings and dormitories of HK$172,982,000 together with the land use right of HK$9,125,000 to investment properties and recorded the difference at that date between the carrying amount and the fair value of HK$45,505,000 as a revaluation reserve in other comprehensive income in the current year.

The Group's investment properties consist of certain Industrial properties in Mainland China. The Group's investment properties were revalued on 31 December 2018 based on valuations performed by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$222,563,000. 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.

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14. Investment Properties (Continued)

Fair value hierarchy

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

	Fair value measurement at 31 December 2018 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	**–**	**–**	**222,563**	**222,563**

	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	–	–	120,013	120,013

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 (2017: Nil).

14. Investment Properties (Continued)

Fair value hierarchy (Continued)

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

	Industrial properties HK$'000
Carrying amount at 1 January 2017	106,427
Net gain from a fair value adjustment recognised in profit or loss *(note 6)*	5,906
Exchange realignment	7,680
Carrying amount at 31 December 2017 and 1 January 2018	**120,013**
Transferred from owner-occupied property and land use right	**227,612**
Disposal	**(118,812)**
Net gain from a fair value adjustment recognised in profit or loss *(note 6)*	**3,343**
Exchange realignment	**(9,593)**
Carrying amount at 31 December 2018	**222,563**

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

	Valuation technique	Significant unobservable inputs	Range or weighted average 2018*	Range or weighted average 2017
Industrial properties	Investment approach	a. Market monthly rental (RMB/sq.m.)	**a. 17**	a. 155
		b. Discount rate	**b. 5% to 5.5%**	b. 5% to 5.5%
		c. Market unit sale rate (RMB/sq.m.)	**c. 3,291 to 3,485**	c. 27,000 to 31,600

* The investment properties as at 31 December 2018 represented part of the manufacturing buildings and dormitories held for lease located in Dongguan.

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

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15. Prepaid Land Lease Payments

	Notes	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January		**277,640**	356,554
Recognised during the year	*6*	**(4,948)**	(7,633)
Transfer to investment properties	*13*	**(9,125)**	–
Disposal		**(29,125)**	(92,570)
Disposal of a subsidiary	*33(A)(c)*	**(32,665)**	–
Exchange realignment		**(12,339)**	21,289
Carrying amount at 31 December		**189,438**	277,640
Current portion included in prepayments, deposits and other receivables	*23*	**(4,638)**	(6,469)
Non-current portion		**184,800**	271,171

16. Intangible Assets

	Product development costs HK$'000	Patents and licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2018				
Cost:				
At 1 January 2018	**461,623**	**125,404**	**12,763**	**599,790**
Disposal	**–**	**(111,606)**	**–**	**(111,606)**
Exchange realignment	**(20,523)**	**(1,712)**	**(587)**	**(22,822)**
At 31 December 2018	**441,100**	**12,086**	**12,176**	**465,362**
Accumulated amortisation:				
At 1 January 2018	**455,705**	**124,287**	**6,943**	**586,935**
Provided during the year	**5,859**	**237**	**1,263**	**7,359**
Disposal	**–**	**(111,606)**	**–**	**(111,606)**
Exchange realignment	**(20,464)**	**(1,669)**	**(365)**	**(22,498)**
At 31 December 2018	**441,100**	**11,249**	**7,841**	**460,190**
Net carrying amount:				
At 31 December 2018	**–**	**837**	**4,335**	**5,172**
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

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17. Investment in a Joint Venture

	2018 HK$'000	2017 HK$'000
Share of net assets	**93,084**	98,359
Goodwill	**8,318**	8,318
	101,402	106,677

Particulars of the Group's material joint venture as at 31 December 2018 are as follows:

Name	Place of registration and business	Fully paid-up capital	Percentage of ownership interest attributable to the Group	Principal activities
Dongguan Coolpad Tian'an Investment Development Co., Ltd. ("Dongguan Tian'an")	PRC/Mainland China	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.

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.

17. Investment in a Joint Venture (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 2018 HK$'000	31 December 2017 HK$'000
Cash and cash equivalents	**3,173**	4,194
Properties under development	**425,000**	142,991
Other current assets	**70,563**	222,887
Current assets	**498,736**	370,072
Non-current assets	**74,115**	69,956
Other payables and accruals	**(345,826)**	(243,181)
Other current liabilities	**(40,169)**	(129)
Current liabilities	**(385,995)**	(243,310)
Non-current liabilities	**(688)**	–
Net assets	**186,168**	196,718
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	**93,084**	98,359
Goodwill	**8,318**	8,318
Carrying amount of the investment	**101,402**	106,677

	31 December 2018 HK$'000	31 December 2017 HK$'000
Revenue	**–**	–
Loss for the year	**(1,559)**	(7,530)
Other comprehensive (loss)/income for the year	**(8,990)**	13,120
Total comprehensive (loss)/income for the year	**(10,549)**	5,590

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18. Investments in Associates

	2018 HK$'000	2017 HK$'000
Share of net assets	**391,311**	493,897
Goodwill	**1,201,710**	1,201,710
	1,593,021	1,695,607
Impairment*	**(1,253,796)**	(1,247,139)
	339,225	448,468

* The estimated recoverable amount of the Group's investment 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 cash flow projection of Coolpad E-commerce Group, an impairment of HK$6,513,000 (2017: HK$434,064,000) was provided for the year using a pre-tax discount rate of 26.4% (2017: 23.7%).

An impairment of HK$144,000 (2017: HK$19,630,000) of investments in other associates was provided during the year based on their recoverable amounts which were determined based on their value-in-use.

The Group's balance with associates is disclosed in note 38(a) to the financial statements.

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

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

18. Investments in Associates (Continued)

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

Coolpad E-commerce Group

	31 December 2018 HK$'000	31 December 2017 HK$'000
Cash and cash equivalents	**844,802**	920,824
Pledged deposits	**210,203**	269,410
Other current assets	**594,651**	1,363,749
Current assets	**1,649,656**	2,553,983
Non-current assets	**25,183**	30,115
Trade payables	**(244,890)**	(571,482)
Other current liabilities	**(465,935)**	(669,510)
Total current liabilities	**(710,825)**	(1,240,992)
Non-current liabilities	**(60,920)**	(56,621)
Net assets	**903,094**	1,286,485
Non-controlling interest	**(28,688)**	–
Equity attributable to owners of Coolpad E-commerce	**874,406**	1,286,485
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	**218,602**	321,621
Goodwill	**1,201,710**	1,201,710
Impairment	**(1,201,544)**	(1,195,031)
Carrying amount of the investment	**218,768**	328,300

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18. Investments in Associates (Continued)

Coolpad E-commerce Group (Continued)

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**2,669,764**	1,932,307
Loss for the year	**(316,661)**	(386,068)
Other comprehensive (loss)/income for the year	**(95,418)**	87,521
Total comprehensive loss for the year	**(412,079)**	(298,547)

Coolpad Mobile Group

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

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

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

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

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18. Investments in Associates (Continued)

Coolpad Mobile Group (Continued)

	31 December 2018 HK$'000	31 December 2017 HK$'000
Cash and cash equivalents	**28,950**	9,153
Other current assets	**336,512**	264,617
Current assets	**365,462**	273,770
Non-current assets	**96,556**	108,173
Other payables and accruals	**(189,559)**	(128,304)
Other current liabilities	**(113,672)**	(309,527)
Current liabilities	**(303,231)**	(437,831)
Non-current liabilities	**(228,258)**	–
Net liabilities	**(69,471)**	(55,888)
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**13.52%**	13.52%
Group's share of net assets of the associate	**(9,392)**	(7,556)
Provision for additional losses	**9,392**	7,556
Carrying amount of the investment	**–**	–

Note:

Pursuant to the Articles and Association of Coolpad Mobile Group, the Group has the obligation to take up the excessive losses of HK$9,392,000 (2017: HK$7,556,000) and therefore, the Group made a provision for the share of the additional losses therefrom.

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**767,263**	519,170
Loss for the year	**(16,759)**	(398,471)
Other comprehensive income/(loss) for the year	**3,176**	(1,797)
Total comprehensive loss for the year	**(13,583)**	(400,268)

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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:

	2018 HK$'000	2017 HK$'000
Share of associates' losses for the year	**(1,299)**	(956)
Share of associates' other comprehensive income/(loss) for the year	**54**	(331)
Share of associates' total comprehensive loss for the year	**(1,245)**	(1,287)
Aggregate carrying amount of the Group's investments in associates	**120,457**	120,168

19. Inventories

	2018 HK$'000	2017 HK$'000
Raw materials	**65,697**	165,724
Work in progress	**8,346**	57,773
Finished goods	**120,912**	172,072
	194,955	395,569

20. Trade Receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	**481,750**	924,790
Impairment	**(301,900)**	(308,312)
	179,850	616,478

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

20. Trade Receivables (Continued)

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

	2018 HK$'000	2017 HK$'000
Within 3 months	**158,389**	512,222
4 to 6 months	**16,312**	111,893
7 to 12 months	**7,774**	46,341
Over 1 year	**299,275**	254,334
	481,750	924,790
Less: Impairment	**(301,900)**	(308,312)
	179,850	616,478

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

	2018 HK$'000	2017 HK$'000
At 1 January	**308,312**	267,597
Effect of adoption of HKFRS 9	**371**	–
At 1 January (restated)	**308,683**	267,597
(Reversal of impairment)/impairment loss *(note 6)*	**(4,621)**	40,510
Amounts written off as uncollectible	**–**	(4,071)
Exchange realignment	**(2,162)**	4,276
	301,900	308,312

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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20. Trade Receivables (Continued)

Impairment under HKFRS 9 for the year ended 31 December 2018 (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Ageing			
	Within 1 year	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	0.9%-8.63%	100%	100%	
Gross carrying amount (HK$'000)	182,475	28,162	271,113	481,750
Expected credit losses (HK$'000)	2,625	28,162	271,113	301,900

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$308,312,000 with a carrying amount before provision of HK$924,790,000.

The ageing analysis of the trade receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	451,740
Less than 3 months past due	55,084
More than 3 months past due	1,070
	507,894

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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21. 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:

	2018 HK$'000	2017 HK$'000
Within 3 months	**8,967**	9,101
Over 3 months	–	2,471
	8,967	11,572

Bills receivable are non-interest-bearing.

At 31 December 2018 and 2017, the Group did not have any past due or impaired bills receivable. An impairment analysis is performed at each reporting date according to the expected credit loss model. At the end of the reporting period, the loss calculated for the remaining balance of bills receivable was not material and has no impact on the Group's consolidated financial statements.

22. Loans Receivable

	2018 HK$'000	2017 HK$'000
Loans receivable	**8,676**	82,976
Non-current portion	**(4,076)**	(18,266)
Short-term loans receivable	**4,600**	64,710

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 (2017: 5% to 13%). 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$4,587,000 (2017: HK$67,279,000) as at 31 December 2018, which were secured by the pledge of collateral and guarantees by certain independent third parties, the loans receivable as at 31 December 2018 were unsecured. An impairment analysis is performed at each reporting date according to the expected credit loss model. At the end of the reporting period, the loss calculated for the remaining balance of loans receivable was not material and has no impact on the Group's consolidated financial statements.

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22. Loans Receivable (Continued)

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

	2018 HK$'000	2017 HK$'000
Within 3 months	**–**	–
4 to 6 months	**–**	636
7 to 12 months	**–**	59,815
Over 1 year	**8,676**	22,525
	8,676	82,976

23. Prepayments, Deposits and Other Receivables

	2018 HK$'000	2017 HK$'000
Prepayments for other suppliers	**40,873**	45,164
Deposits and other receivables	**156,591**	79,086
Deductible input VAT	**370,492**	1,052,979
Prepaid expenses	**2,661**	3,577
Current portion of prepaid land lease payments *(note 15)*	**4,638**	6,469
	575,255	1,187,275
Non-current portion	**(14,310)**	(26,825)
	560,945	1,160,450

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for where there are no comparable companies as at 31 December 2018 was not significant.

24. Equity Investments at Fair Value through Profit or Loss/Available-For-Sale Investments

	2018 HK$'000	2017 HK$'000
Listed equity investments, at fair value	**116,446**	–
Other unlisted investments, at fair value	**23,486**	–
	139,932	–
Available-for-sale investments		
Unlisted equity investment, at cost	–	32,186
Listed equity investment, at fair value	–	2,735
	–	34,921

The above equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

25. Cash and Cash Equivalents and Pledged Deposits

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**168,554**	451,130
Time deposits	**114,966**	115,776
	283,520	566,906
Less: pledged deposits for:		
– Bank loans *(note 29)*	**–**	(46,392)
– A performance guarantee provided by a bank	**(114,966)**	(69,384)
	(114,966)	(115,776)
Cash and cash equivalents	**168,554**	451,130

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$102,562,000 (2017: HK$353,521,000). 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.

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26. 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:

	2018 HK$'000	2017 HK$'000
Within 3 months	**87,231**	303,801
4 to 6 months	**4,512**	88,576
7 to 12 months	**17,621**	159,924
Over 1 year	**143,300**	204,096
	252,664	756,397

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

27. 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:

	2018 HK$'000	2017 HK$'000
Within 3 months	–	45,934

28. Other Payables and Accruals

	Notes	2018 HK$'000	2017 HK$'000
Accrued royalties		**480,564**	472,605
Advances from customers		–	45,100
Contract liabilities	*(a)*	**55,341**	–
Product warranty provision	*(b)*	**21,083**	27,133
Accrued sales incentives		**78,624**	104,815
Advance in respect of a proposed issue of convertible bonds	*(c)*	**58,195**	58,195
Other accruals		**78,462**	90,275
Other payables		**836,887**	1,088,539
		1,609,156	1,886,662

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

28. Other Payables and Accruals (Continued)

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers		
Sale of mobile phones and related accessories	**55,341**	45,100

Contract liabilities include short-term advances received to deliver mobile phones and accessories. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the sale of goods close to the end of the year.

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

	Note	2018 HK$'000	2017 HK$'000
At 1 January		**27,133**	34,398
Additional provision	*6*	**3,114**	45,166
Amounts utilised during the year		**(8,881)**	(53,521)
Exchange realignment		**(283)**	1,090
At 31 December		**21,083**	27,133

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

(c) Advance 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 nominal value of HK$582 million (the "Convertible Bonds Agreement"), under which the Group received a deposit of approximately HK$58 million. Details of the Convertible Bonds Agreement are set out in the Company's announcements dated 17 October 2017 and 16 November 2017, respectively.

Up to 31 December 2018, the Convertible Bonds Agreement had not come into effect.

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29. Interest-Bearing Bank and Other Borrowings

	2018			2017		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	–	–	–	3.92-6.96	2018	589,262
Other borrowings – unsecured	–	–	–	6.00	2018	95,704
			–			684,966
Non-current						
Other borrowings – unsecured	**4.54**	**2020**	**228,258**	4.54	2020	239,260
			228,258			924,226
Analysed into bank and other loans repayable:						
Within one year or on demand			–			684,966
In the second year			–			–
In the third year			**228,258**			239,260
			228,258			924,226

Notes:

(a) At 31 December 2018, the Group's bank and other borrowings of HK$228,258,000 (2017: HK$674,714,000) bore interest at floating rates, while none of the bank and other borrowings (2017: HK$249,512,000) bore interest at fixed rates.

(b) At 31 December 2018, the Group's bank and other borrowings of HK$228,258,000 (2017: HK$924,226,000) were denominated in RMB.

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30. 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	Adjustments to fair value of disposal of remaining equity interests of a subsidiary HK$'000	Total HK$'000
At 1 January 2017	49,284	8,209	–	57,493
Credited 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 and 1 January 2018	**47,614**	**8,209**	**–**	**55,823**
Charged to equity during the year	**9,821**	**–**	**–**	**9,821**
(Credited)/charged to profit or loss for the year *(note 10)*	**(20,370)**	**–**	**1,866**	**(18,504)**
Exchange differences	**(1,805)**	**–**	**–**	**(1,805)**
At 31 December 2018	**35,260**	**8,209**	**1,866**	**45,335**

Deferred Tax Assets

	Deductible amortisation allowance HK$'000
At 1 January 2017	5,698
Credited to profit or loss for the year *(note 10)*	2,103
Exchange differences	477
At 31 December 2017 and 1 January 2018	**8,278**
Charged to profit or loss for the year *(note 10)*	**(7,510)**
Exchange differences	**(108)**
At 31 December 2018	**660**

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30. 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 2018, the Group has not recognised deferred tax liabilities of HK$261,466,000 (2017: HK$255,243,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$2,614,656,000 (2017: HK$2,552,433,000), 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:

	2018 **HK$'000**	2017 HK$'000
Tax losses	**792,594**	404,416
Deductible temporary differences	**920,920**	988,326
	1,713,514	1,392,742

The Group had total accumulated tax losses arising in Mainland China, United States and Hong Kong of HK$792,594,000 (2017: HK$404,416,000) 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.

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31. Share Capital and Reserves

(a) Share capital

	2018 HK$'000	2017 HK$'000
Authorised:		
20,000,000,000 (2017: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
5,033,407,480 (2017: 5,033,407,480) ordinary shares of HK$0.01 each	**50,334**	50,334

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017	5,032,607,480	50,326	1,235,203	1,285,529
Issue of shares upon exercise of share options	800,000	8	429	437
At 31 December 2017 and 1 January 2018	**5,033,407,480**	**50,334**	**1,235,632**	**1,285,966**
Issue of shares upon exercise of share options	–	–	–	–
At 31 December 2018	**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 32 to the financial statements.

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31. Share Capital and Reserves (Continued)

(b) Reserves

(i) Share premium account

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

(ii) Statutory reserve

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

(iii) Capital redemption reserve

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

(iv) Other reserve

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

32. Share Option Scheme

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

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

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

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

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

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

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32. Share Option Scheme (Continued)

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

	2018		2017	
	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	**1.5285**	**147,046**	1.5252	305,743
Exercised during the year	**–**	**–**	0.3370	(800)
Forfeited during the year	**1.5198**	**(117,242)**	1.5897	(120,630)
Expired during the year	**0.8390**	**(336)**	1.3286	(37,267)
At 31 December	**1.5714**	**29,468**	1.5285	147,046

No share options were exercised in 2018 (2017: The weighted average share price at the date of exercise for the share options exercised during the year was HK$0.74 per share)

Notes to Financial Statements

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32. 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:

2018

Number of options '000	Exercise price HK$	Exercise period
3,180	**1.540**	**10-1-15 to 10-1-19**
7,000	**1.492**	**22-1-16 to 22-1-20**
2,200	**1.492**	**22-1-17 to 22-1-21**
7,088	**1.620**	**16-10-16 to 16-10-20**
10,000	**1.620**	**16-10-17 to 16-10-21**
29,468		

2017

Number of options '000	Exercise price HK$	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		

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32. Share Option Scheme (Continued)

The Group recorded a net reversal of share option expense of HK$63,004,000 (note 6) (2017: a net reversal of HK$28,086,000) due to the forfeiture of certain share options granted in prior years during the year ended 31 December 2018.

At the end of the reporting period, the Company had 29,468,000 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 29,468,000 additional ordinary shares of the Company and additional share capital of HK$294,680 and share premium of HK$46,011,480 (before issue expenses).

Subsequent to the end of the reporting period, 3,180,000 share options were forfeited.

At the date of approval of these financial statements, the Company had 26,288,000 share options outstanding under the Scheme, which represented approximately 0.52% of the Company's shares in issue as at that date.

33. Disposal of Subsidiaries

(A) Year ended 31 December 2018

(a) Fujian Helongsheng was a subsidiary of the Group, of which 80% of its equity interest was attributable to the Group. On 27 July 2018, the Group agreed to transfer its 80% equity interest of Fujian Helongsheng to an independent third party for a consideration of HK$703,000. As a result, the Group lost its control over Fujian Helongsheng and recorded a loss of HK$92,000 arising therefrom.

	Fujian Helongsheng HK$'000
Net assets disposed of:	
Prepayments and other receivables	131
Cash and bank balances	126
Other current asset	432
Trade payables	(211)
Non-controlling interests	(95)
	383
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	412
Loss recognised as a result of loss of control of a subsidiary	(92)
	703
Satisfied by:	
Other payables	703

33. Disposal of Subsidiaries (Continued)

(A) Year ended 31 December 2018 (Continued)

(b) Xi'an Kumei was a subsidiary of the Group, of which 100% of its equity interest was attributable to the Group. On 23 January 2018, the Group agreed to transfer its 100% equity interest of Xi'an Kumei to an independent third party for a consideration of HK$28,191,000. As a result, the Group lost its control over Xi'an Kumei and recorded a gain of HK$25,802,000 arising therefrom.

	Xi'an Kumei
	HK$'000
Net assets disposed of:	
Cash and bank balances	2,393
	2,393
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	(4)
Gain recognised as a result of loss of control of a subsidiary	25,802
	28,191
Satisfied by:	
Cash	28,191

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33. Disposal of Subsidiaries (Continued)

(A) Year ended 31 December 2018 (Continued)

(c) Nanjing Yulong was a subsidiary of the Group, of which 100% of its equity interest was attributable to the Group. On 30 September 2018, the Group agreed to transfer its 80% equity interest of Nanjing Yulong to an independent third party for a consideration of HK$113,628,000. As a result, the Group lost its control over Nanjing Yulong and recorded a gain of HK$68,880,000 arising therefrom.

	Nanjing Yulong
	HK$'000
Net assets disposed of:	
Prepayments and other receivables	2,322
Cash and bank balances	46
Property, plant and equipment	50,941
Prepaid land lease payments	32,665
Advances from customers, other payables and accruals	(20,501)
	65,473
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	5,412
Fair value of the equity interests retained in Nanjing Yulong	(26,137)
Gain recognised as a result of loss of control of a subsidiary	68,880
	113,628
Satisfied by:	
Cash	113,628

33. Disposal of Subsidiaries (Continued)

(B) Year ended 31 December 2017

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 balances	832
Other current asset	389
Non-current asset	17
Advances from customers, other payables and accruals	(73)
Non-current liability	(2,854)
Non-controlling interests	(1,370)
	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

Notes to Financial Statements

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33. Disposal of Subsidiaries (Continued)

(B) Year ended 31 December 2017 (Continued)

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

	2018 HK$'000	2017 HK$'000
Cash consideration	**141,819**	1,024
Consideration to be received in the following year	**(11,362)**	–
Cash and cash equivalents disposed of	**(2,565)**	(832)
Net inflow of cash and cash equivalents in respect of the loss of control of subsidiaries	**127,892**	192

34. Notes to the Consolidated Statement of Cash Flows

Changes in Liabilities Arising from Financing Activities

	2018				
	Bank and other borrowings HK$'000	Interest payable HK$'000	Advance in respect of a proposed issue of convertible bonds HK$'000	An amount due to a related party HK$'000	Payables for acquisition of non-controlling interest included in other payables HK$'000
At 1 January 2018	**924,226**	**3,643**	**58,195**	**–**	**–**
Changes from financing cash flows	**(672,576)**	**(18,404)**	**–**	**206,405**	**(4,306)**
Interest expense	**–**	**29,555**	**–**	**7,586**	**–**
Increase arising from acquisition of non-controlling interest	**–**	**–**	**–**	**–**	**22,700**
Foreign exchange movement	**(23,392)**	**(573)**	**–**	**(11,862)**	**(6,965)**
At 31 December 2018	**228,258**	**14,221**	**58,195**	**202,129**	**11,429**

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

Changes in Liabilities Arising from Financing Activities (Continued)

	2017		
	Bank and other borrowings HK$'000	Interest HK$'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	(259,501)	(19,121)	58,195
Interest expense	–	26,248	–
Foreign exchange movement	60,632	(3,484)	–
At 31 December 2017	924,226	3,643	58,195

35. 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$195,823,000). In preparing these consolidated financial statements, the aforesaid lawsuit was still in progress.

(b) Litigations with suppliers

The Group received several civil complaints in 2018 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB129 million (equivalent to HK$147 million). The arbitration procedures of the civil complaints were still in progress as at the date of approval of the consolidated financial statements.

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36. 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 five 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 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**12,906**	15,716
In the second to fifth years, inclusive	**42,086**	51,559
After five years	**–**	12,986
	54,992	80,261

(b) As lessee

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

	2018 HK$'000	2017 HK$'000
Within one year	**15,450**	22,609
In the second to fifth years, inclusive	**9,129**	14,647
After five years	**492**	–
	25,071	37,256

37. Commitments

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for constructions in progress	**1,243,066**	308,604
Capital contributions payable to certain associates	**16,170**	24,193
	1,259,236	332,797

38. Related Party Transactions

(a) Balances with related parties:

	2018 HK$'000	2017 HK$'000
Amounts due from associates (i)	**27,922**	43,801

	2018 HK$'000	2017 HK$'000
Amounts due to associates (i)	**248,891**	277,082
An amount due to a related party (ii)	**202,129**	–
	451,020	277,082

(i) Amounts due from/to associates represented the trade receivables from and the deposits and advances payable to associates which arose from in the course of the Group's operation.

(ii) The balance represented the loan and related interest due to Kingkey Group amounting to HK$202,129,000 as at 31 December 2018, which is unsecured, with a term of 12 months at an annual interest rate of 6.5%. Kingkey Group is an associate of Power Sun Ventures Limited, a substantial shareholder of the Company, and therefore a related party of the Group.

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38. Related Party Transactions (Continued)

(b) Transactions with related parties:

	2018 HK$'000	2017 HK$'000
Associates:		
Sale of products	**492**	86,531
Purchase of raw materials	**30,623**	–
Sale of assets	**3**	1,449
Service income	**34,491**	53,825

	2018 HK$'000	2017 HK$'000
Other related parties:		
Sale of products (i)	**–**	7,171
Purchase of raw materials (i)	**–**	9,085
Loan arrangement (ii)	**194,819**	–
Interest expense (ii)	**7,586**	–

(i) After completion of the remaining orders of certain products and the purchase of raw materials in 2017, there was no more transaction with Leview Mobile HK Limited, the then single largest shareholder of the Group before 4 January 2018.

(ii) In 2018, Kingkey Group has agreed to provide a loan with a maximum amount of no more than RMB500 million to the Group for corporate operation with a term of 12 months at an annual interest rate of 6.5%. Up to 31 December 2018, the accumulated loan amount drawn down by the Group was HK$194,819,000 and the associates interest expense recognised for the current year amounted to HK$7,586,000.

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

(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:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**11,033**	13,667
Pension scheme contributions	**424**	555
Equity-settled share option expense	**1,349**	(11,409)
Total compensation paid to other key management personnel	**12,806**	2,813

39. 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

2018

	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
Trade receivables	179,850	–	179,850
Bills receivable	8,967	–	8,967
Loans receivable	8,676	–	8,676
Financial assets included in prepayments, deposits and other receivables	151,017	–	151,017
Equity investments at fair value through profit or loss	–	139,932	139,932
Amounts due from associates	27,922	–	27,922
Pledged deposits	114,966	–	114,966
Cash and cash equivalents	168,554	–	168,554
	659,952	139,932	799,884

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39. Financial Instruments by Category (Continued)

Financial assets (Continued)

2017

	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	–	34,921	34,921
Trade receivables	616,478	–	616,478
Bills receivable	11,572	–	11,572
Loans receivable	82,976	–	82,976
Financial assets included in prepayments, deposits and other receivables	76,543	–	76,543
Amounts due from associates	43,801	–	43,801
Pledged deposits	115,776	–	115,776
Cash and cash equivalents	451,130	–	451,130
	1,398,276	34,921	1,433,197

Financial liabilities

Financial liabilities at amortised cost	2018 HK$'000	2017 HK$'000
Trade payables	**252,664**	756,397
Bills payable	**–**	45,934
Financial liabilities included in other payables and accruals	**1,321,144**	1,464,974
Interest-bearing bank and other borrowings	**228,258**	924,226
Amounts due to associates	**248,891**	277,082
An amount due to a related party	**202,129**	–
	2,253,086	3,468,613

40. 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	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Financial assets				
Equity investments at fair value through profit or loss	**139,932**	–	**139,932**	–
Available-for-sale investments – listed	**–**	2,735	**–**	2,735
	139,932	2,735	**139,932**	2,735
Financial liabilities				
Interest-bearing bank borrowings	**–**	589,262	**–**	589,262
Other borrowings	**228,258**	334,964	**228,258**	334,964
	228,258	924,226	**228,258**	924,226

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 associates, pledged deposits, cash and cash equivalents, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to associates and an amount due to a related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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:

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

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through profit or loss, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates.

For the fair value of the unlisted equity investments at fair value through profit or loss, which were previously classified as available-for-sale equity investments, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately HK$1,366,000, using less favorable assumptions, and an increase in fair value of approximately HK$1,366,000, using more favorable assumptions.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/S multiple of peers	2018: 1.13% to -1.13%	1% increase/decrease in multiple would result in increase/decrease in fair value by approximately HK$23,000
		Discount for lack of marketability	2018: -1.18% to 1.18%	1% increase/decrease in multiple would result in decrease/increase in fair value by approximately HK$1,343,000

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

40. 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 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Equity investments at fair value through profit or loss	**2,358**	**–**	**137,574**	**139,932**

As at 31 December 2017

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

The Group did not have any financial liabilities measured at fair value as at 31 December 2018.

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 (2017: Nil).

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

Liabilities for which fair values are disclosed:

As at 31 December 2018

	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	**–**	**–**	**228,258**	**228,258**

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

41. 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 associates, trade and bills payables, amounts due from/to associates and an amount due to a related party, 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 29 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).

41. Financial Risk Management Objectives and Policies (Continued)

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000
2018		
RMB	**100**	**2,283**
RMB	**(100)**	**(2,283)**
2017		
RMB	100	4,355
RMB	(100)	(4,355)

Foreign currency risk

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

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

	Increase/ (decrease) in USD %	Increase/ (decrease) in loss before tax HK$'000
2018		
If RMB weakens against USD	**5**	**(26,581)**
If RMB strengthens against USD	**(5)**	**26,581**
2017		
If RMB weakens against USD	5	(25,953)
If RMB strengthens against USD	(5)	25,953

Notes to Financial Statements

31 December 2018

41. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk (Continued)

	Increase/ (decrease) in EUR %	Increase/ (decrease) in loss before tax HK$'000
2018		
If RMB weakens against EUR	**5**	**213**
If RMB strengthens against EUR	**(5)**	**(213)**
If HK$ weakens against EUR	**5**	**526**
If HK$ strengthens against EUR	**(5)**	**(526)**
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)

Credit risk

Credit risk for the sale of mobile phones

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

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41. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging as at 31 December 2018 (Continued)

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	HK$'000
Trade receivables*	–	–	–	179,850	179,850
Financial assets included in prepayments, deposits and other receivables					
– Normal**	560,945	–	–	–	560,945
– Doubtful**	–	–	–	–	–
Pledged deposits					
– Not yet past due	114,966	–	–	–	114,966
Cash and cash equivalents					
– Not yet past due	168,554	–	–	–	168,554
	844,465	–	–	179,850	1,024,315

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Notes to Financial Statements

31 December 2018

41. Financial Risk Management Objectives and Policies (Continued)

Credit risk (Continued)

Maximum exposure as at 31 December 2017

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 associates, 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 82% (2017: 80%) 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 20 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 risk 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 conduct 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 2018

41. 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:

	2018		
	On demand and less than 1 year HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**252,664**	**–**	**252,664**
Financial liabilities included in other payables and accruals	**1,321,144**	**–**	**1,321,144**
Interest-bearing other borrowings	**–**	**264,147**	**264,147**
Amounts due to associates	**248,891**	**–**	**248,891**
An amount due to a related party	**207,482**	**–**	**207,482**
	2,030,181	**264,147**	**2,294,328**

	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

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 2018 and 2017.

Notes to Financial Statements

31 December 2018

41. Financial Risk Management Objectives and Policies (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable, other payables and accruals, amounts due to associates and an amount due to a 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:

	2018 HK$'000	2017 HK$'000
Interest-bearing bank and other borrowings	**228,258**	924,226
Trade payables	**252,664**	756,397
Bills payable	**–**	45,934
Other payables and accruals	**1,609,156**	1,886,662
Amounts due to associates	**248,891**	277,082
An amount due to a related party	**202,129**	–
Less: Cash and cash equivalents	**(168,554)**	(451,130)
Net debt	**2,372,544**	3,439,171
Equity attributable to owners of the Company	**414,213**	843,926
Capital and net debt	**2,786,757**	4,283,097
Gearing ratio	**85%**	80%

42. Events after the Reporting Period

Save as disclosed in note 38(a)(ii) and 38(b)(ii) to the financial statements, the Group and Kingkey Group entered into a supplementary agreement on 20 March 2019, pursuant to which, Kingkey Group agreed to grant the extension of the terms in connection with the loans drawn down under the loan agreement on 18 May 2018 from 12 months to 36 months. Up to the date of this Annual Report, the cumulative loan amounts drawn down by the Group was approximately HK$258 million. The remaining unused loan balance was approximately HK$326 million.

Notes to Financial Statements

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43. 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:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**201,846**	264,850
Available-for-sale investment	**–**	2,735
Equity investment at fair value through profit or loss	**2,358**	–
Total non-current assets	**204,203**	267,585
CURRENT ASSETS		
Amounts due from subsidiaries	**1,551,296**	1,597,903
Prepayments, deposits and other receivables	**69**	69
Cash and cash equivalents	**27,677**	35,357
Total current assets	**1,579,043**	1,633,329
CURRENT LIABILITIES		
Amounts due to subsidiaries	**5,905**	–
Other payables and accruals	**61,441**	58,802
Total current liabilities	**67,346**	58,802
NET CURRENT ASSETS	**1,511,697**	1,574,527
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,715,900**	1,842,112
Net assets	**1,715,900**	1,842,112
EQUITY		
Share capital	**50,334**	50,334
Reserves *(note)*	**1,665,566**	1,791,778
Total equity	**1,715,900**	1,842,112

Notes to Financial Statements

31 December 2018

43. 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/ Fair value reserve HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	1,235,203	44,992	154,257	43,564	(2,691)	1,870	388	274,082	1,751,665
Profit and 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 and 1 January 2018	1,235,632	44,992	126,006	43,564	(2,314)	1,870	388	341,640	1,791,778
Effect of adoption of HKFRS 9	–	–	–	–	2,314	–	–	(2,314)	–
At 1 January 2018 (restated)	1,235,632	44,992	126,006	43,564	–	1,870	388	339,326	1,791,778
Loss and total comprehensive loss for the year	–	–	–	–	–	–	–	(63,208)	(63,208)
Equity-settled share option arrangements	–	–	(63,004)	–	–	–	–	–	(63,004)
At 31 December 2018	**1,235,632**	**44,992**	**63,002**	**43,564**	**–**	**1,870**	**388**	**276,118**	**1,665,566**

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of Directors of the Company on 29 March 2019.