中國全通
ALL ACCESS

CHINA ALL ACCESS (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 633

Annual Report 2018

INTELLIGENT SOLUTIONS

ACCESS FOR ALL

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Chan Yuen Ming
Mr. Shao Kwok Keung (CPA)
Mr. Xiu Zhi Bao (retired on 12 October 2018)
Mr. Yan Wei (retired on 13 June 2018)
Mr. Tian Zheng (retired on 13 June 2018)

Non-Executive Directors

Mr. Bao Tiejun (Appointed on 15 February 2019)

Independent Non-Executive Directors

Mr. Wong Che Man Eddy (FCPA)
Mr. Lam Kin Hung Patrick
Mr. Fung Ka Kin (FCPA)

AUTHORISED REPRESENTATIVES

Mr. Chan Yuen Ming
Mr. Shao Kwok Keung (CPA)

AUDIT COMMITTEE

Mr. Wong Che Man Eddy (Chairman) (FCPA)
Mr. Lam Kin Hung Patrick
Mr. Fung Ka Kin (FCPA)

REMUNERATION COMMITTEE

Mr. Fung Ka Kin (Chairman) (FCPA)
Mr. Wong Che Man Eddy (FCPA)
Mr. Shao Kwok Keung (CPA)

NOMINATION COMMITTEE

Mr. Lam Kin Hung Patrick (Chairman)
Mr. Wong Che Man Eddy (FCPA)
Mr. Shao Kwok Keung (CPA)

COMPANY SECRETARY

Mr. Au Ki Lun (CPA)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1506-08, 15F,
Greenfield Tower, Concordia Plaza,
1 Science Museum Road,
Tsimshatsui, Kowloon,
Hong Kong

REGISTERED OFFICE

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

AUDITORS

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower, The Landmark
11 Pedder Street
Central
Hong Kong

CORPORATE INFORMATION

HONG KONG LEGAL ADVISER

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

China Construction Bank Corporation
Shenzhen Branch
A Section, Rongchao Business Center
6003 Yitian Road, Futian District
Shenzhen
People's Republic of China

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Union Registrars Limited
33/F., Two Chinachem Exchange Square,
338 King's Road,
North Point,
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

COMPANY WEBSITE

www.chinaallaccess.com

FINANCIAL SUMMARY

A five year financial summary of the results and of the assets and liabilities of China All Access (Holdings) Limited (the"Company") and its subsidiaries (collectively, the"Group") is set out below. This summary does not form part of the audited financial statements.

	Years ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Continuing operations					
Revenue	**1,702,670**	2,516,498	3,071,866	2,842,386	2,489,152
Cost of sales	**(1,594,253)**	(2,096,602)	(2,484,839)	(2,243,868)	(2,009,530)
Gross profit	**108,417**	419,896	587,027	598,518	479,622
Other revenue	**68,808**	82,706	14,499	12,547	4,676
Other net gain/(loss)	**(15,923)**	9,438	(5,160)	(7,525)	(252)
Distribution costs	**(6,512)**	(8,904)	(16,306)	(17,708)	(11,058)
Administrative expenses	**(246,384)**	(197,111)	(290,311)	(204,207)	(286,997)
Research and development expenses	**(9,415)**	(9,256)	(33,039)	(17,629)	(22,562)
(Loss)/profit from operations	**(101,009)**	296,769	256,710	363,996	163,429
Finance income	**29,295**	29,064	66,257	116,750	81,487
Finance costs	**(218,853)**	(194,511)	(207,613)	(156,551)	(110,093)
Loss on disposal of associates	**—**	—	—	(3,750)	(1,834)
Gain on disposal of subsidiaries	**—**	6,971	—	—	2
Share of profits less losses of associates	**709**	1,809	(193)	(35)	(52)
(Loss)/profit before taxation	**(289,858)**	140,102	115,161	320,410	132,939
Income tax	**(6,833)**	(12,322)	(37,591)	(92,023)	(52,937)
(Loss)/profit for the year from continuing operations	**(296,691)**	127,780	77,570	228,387	80,002
Discontinued operation					
(Loss)/profit for the year from discontinued operation	**(381,416)**	104,427	153,484	83,837	113,973
(Loss)/profit for the year	**(678,107)**	232,207	231,054	312,224	193,975

FINANCIAL SUMMARY

	Years ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Earnings per share					
From continuing and discontinued operations					
Basic (RMB)	**(0.349)**	0.117	0.123	0.159	0.146
Diluted (RMB)	**(0.349)**	0.117	0.120	0.159	0.146
From continuing operations					
Basic (RMB)	**(0.153)**	0.064	0.047	0.129	0.069
Diluted (RMB)	**(0.153)**	0.064	0.047	0.129	0.069
From discontinued operations					
Basic (RMB)	**(0.197)**	0.053	0.067	0.030	0.077
Diluted (RMB)	**(0.197)**	0.053	0.067	0.030	0.077
Assets and liabilities					
Total assets	**5,907,983**	6,996,294	8,284,265	10,635,510	9,788,787
Total liabilities	**(2,762,649)**	(3,005,779)	(4,408,826)	(7,117,559)	(6,563,250)
Total equity	**3,145,334**	3,990,515	3,875,439	3,517,951	3,225,537

THE STORY OF

CHINA ALL ACCESS

This modern city, with sun, sea and the brilliant first rays of the morning sun, is full of vitality. Flow of automobiles runs endlessly on the viaduct; aircrafts take off from and land on the busy airport runway; white-collar workers are working in highrise buildings; people are doing morning exercise in the city park - all these are features of a city with harmony, everything seems so harmonious, life with happiness, work with hope and ordinariness with fortune.

The city, the largest city in China, which is known as a first-tier city internationally, is like a huge machine operating at high speed which would not stop running for a second. Functional authorities such as the government, public security, traffic police and fire services are the heart of this machine. Public utilities such as water, electricity, heating and gas as well as the network systems are the blood vessels of this machine that reach every corner of the city and penetrate into every detail of people's life. To ensure the seamless, safe and smooth operation of this machine, apart from the dutiful watch by tens of thousands of workers, technological solutions which are more intelligent than the brain and terminal facilities which are sharper than the eyes are required at the frontline for support.

All access, wisdom and life – this is the story behind this beautiful city seen and happy life enjoyed by people.

China All Access – a leading manufacturer and provider of integrated information communication system solution and innovative devices using new generation information communication technology.

CHAIRMAN'S STATEMENT

In 2018, the growth of the global economic has slowed down due to the rapidly escalated Sino US trade war. In addition, the business environment in the PRC faced the challenges of lowering leverage ratio and eliminating excess production segment capacity. All these adverse factors had been overwhelming since the beginning of 2018 and unfavorably affect the domestic and export demand. As a result, the growth of the China's economic segments has been declined continuously.

Facing the challenges, the Group continued to streamline its business structure and focus the resources on the continuous development and high-end manufacturing of the ICT, New Energy and Investment segment.

ICT

The group has established the R&D and production bases in Shenzhen and Ganzhou of Jiangxi Province, China. The ICT segments will be the main growth engine for the Group in 2019, due to the strengthened bonding with new large customers and our large-scaled mass production phase of operation. In addition, the antenna business will gradually become more important to the ICT segment, the Group is already capable to carry out mass-production of 4G antennas and eventually generated sales to customers. We believe that the 5G antennas will also have commercial capabilities in 2019.

CHAIRMAN'S STATEMENT

NEW ENERGY

The Group has invested substantial amount in the New Energy segment, including patent and project acquisition. We are developing and commercialising the products which are expected to contribute sales revenue. In addition, we have planned and invested in the R&D and production bases in Shenzhen, Ganzhou and Jinan. We have also established a demonstration project in Gansu, Guangxi, Xinjiang and Shandong, which will favorably contribute to our New Energy business.

The Group will also engage in other New Energy business, such as energy storage, microgrid and solar thermal business, which will be supported by the PRC government in 2019. It is also facilitated by the national coal-limited environmental protection policy, which will also benefit our New Energy products.

CAPITAL INVESTMENT

The Group will actively seek out 5G-related and New Energy business acquisition and mergers opportunities, as well as cooperation projects to jointly develop new products with our technology partners.

CONCLUDE

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders for their support and trust in the Group. I would also like to take this opportunity to thank the Board of Directors and all staff members for their dedication, professionalism and contributions to ensure the continuing development of the Company.

TECHNOLOGY PAVES THE WAY TO SMART LIVING

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group reported its results for the year ended 31 December 2018. Following the completion of the business restructuring of the Group, the Group focused on developing its businesses in the ICT, New Energy and investment activities segments in 2018.

Major business highlights for the year are as follows:

1. Revenue for the year ended 31 December 2018 decreased by approximately 32.34% to approximately RMB1,702,670,000 as compared to corresponding period in 2017 from continuing operations;

2. Gross profit for the year ended 31 December 2018 decreased by approximately 74.18% to approximately RMB108,417,000 as compared to corresponding period in 2017 from continuing operations; and

3. Loss attributable to owners of the Company arises from continuing operations for the year ended 31 December 2018 was RMB296,691,000, compared to a profit of RMB124,354,000 in the previous year.

ICT

The business environment in the PRC in 2018 faced the challenges of lowering leverage ratio, eliminating excess production capacity and the Sino US trade war. All these adverse factors had been overwhelming since the beginning of 2018. Coupled with the progressive maturity of 4G technology and the security concern of PRC's 5G technology in some major countries in the world, the volume of handset shipment of the whole industry experienced stagnant situation. In order to maintain the normal utilization of our production capacity, we spent tremendous effort in looking for new customers and securing new orders.

New Energy

During the year ended 31 December 2017, the Group has commenced the business in New Energy segment. The Group has completed the sampling, trial and assembly of device for increasing the luminous flux per unit area for photovoltaic plants. The Group has also commenced the mass production of the first generation products. The first shipment of our products was made to the market in the north-west of China. Revenue generated from New Energy segment during the year ended 31 December 2017 was approximately RMB177,346,000, accounting for approximately 7.05% of the Group's total revenue for the year ended 31 December 2017.

In 2018, with the advancement of technology, the Group found that the first generation products still have rooms for upgrade to achieve better performance. The upgrade of the product has been completed and the commissioning phase is undergoing. The Group also installed the first generation products in the solar power station in Nanning, Guangxi Province, for field experiment, product testing and product display purpose. Final commissioning of the product is expected to be completed in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment activities

In 2018, the Group continued to manage cash using the investment market as platform. It subscribed some high yield treasury products and provided facilitating capital to its supply stream to earn reasonable returns under a risk-secured approach. Revenue generated from investment decreased from approximately RMB135,145,000 for the year ended 31 December 2017 to approximately RMB1,564,000 for the year ended 31 December 2018. The Group adopted the same policy in investment and will continue to seek for investment projects with long term stable return rate.

FINANCIAL REVIEW

From Continuing Operations

Revenue

Revenue decreased from approximately RMB2,516,498,000 for the year ended 31 December 2017 to approximately RMB1,702,670,000 for the year ended 31 December 2018, representing a decrease of approximately 32.34%. The decrease in revenue during the year as compared with that of last year was mainly attributable to the factors below:

- ICT recorded a decrease in revenue from approximately RMB2,204,007,000 for the year ended 31 December 2017 to approximately RMB1,701,106,000 for the year ended 31 December 2018, representing a decrease of approximately 22.82%. The decrease was mainly due to the challenges of lowering leverage ratio, eliminating excess production capacity and the Sino US trade war. In addition to the progressive maturity of 4G technology and the security of PRC's 5G technology.

- New Energy recorded a decrease in revenue from approximately RMB177,346,000 for the year ended 31 December 2017 to nil for the year ended 31 December 2018. It was mainly due to the extra time needed for the re-design of the first generation products in 2018.

- Investment activities recorded a decrease in revenue from approximately RMB135,145,000 for the year ended 31 December 2017 to approximately RMB1,564,000 for the year ended 31 December 2018, representing a decrease of approximately 98.84%. The revenue was mainly attributable to interest earned from provision of facilitating capital to supply stream and customers.

Gross profit

Gross profit decreased from approximately RMB419,896,000 for the year ended 31 December 2017 to approximately RMB108,417,000 for the year ended 31 December 2018, representing a decrease of approximately 74.18% from the corresponding period in 2017. The gross profit margin decreased from approximately 16.69% for the year ended 31 December 2017 to approximately 6.37% for the year ended 31 December 2018. As the business development of the Group faced major challenges in 2018, the Group strove for new customers and new orders in a very tough business environment. Hence, the profitability of the Group's business was seriously impacted.

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue

Other revenue decreased from approximately RMB82,706,000 for the year ended 31 December 2017 to approximately RMB68,808,000 for the year ended 31 December 2018, representing a decrease of approximately 16.80% from the corresponding period in 2017. It was mainly attributable to the decrease in recovered impairment loss on trade receivables for the year ended 31 December 2018.

Other net loss/gain

The Group recorded other net loss of approximately RMB15,923,000 for the year ended 31 December 2018 as compared to an other net gain of approximately RMB9,438,000 for the year ended 31 December 2017. The loss was mainly due to an exchange loss of RMB15,458,000 for the year ended 31 December 2018.

Distribution costs, administrative expenses and research and development expenses

Distribution costs, administrative expenses and research and development expenses increased from approximately RMB215,271,000 for the year ended 31 December 2017 to approximately RMB262,311,000 for the year ended 31 December 2018, representing an increase of approximately 21.85% from the corresponding period in 2017. The increase was mainly due to the increase in administrative expenses. The Group has provided an impairment loss recognised in respect of trade and other receivables of approximately RMB96,052,000.

The percentage of distribution costs, administrative expenses and research and development expenses as a percentage of the Group's total revenue increased from approximately 8.55% for the year ended 31 December 2017 to approximately 15.41% for the year ended 31 December 2018, representing an increase of approximately 6.86 percentage points from the corresponding period in 2017. The increase was mainly due to the reason as mentioned above.

Finance income and finance costs

Finance income slightly increased from approximately RMB29,064,000 for the year ended 31 December 2017 to approximately RMB29,295,000 for the year ended 31 December 2018, representing an increase of approximately 0.79% from the corresponding period in 2017. The increase was mainly attributable to the increase in interest income from structured deposits and other receivables during the year as compared with that of last year.

Finance costs increased from approximately RMB194,511,000 for the year ended 31 December 2017 to approximately RMB218,853,000 for the year ended 31 December 2018, representing an increase of approximately 12.51% from the corresponding period in 2017. The increase was mainly the result of the increase in finance costs associated with borrowings during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax

Income tax decreased from approximately RMB12,322,000 for the year ended 31 December 2017 to approximately RMB6,833,000 for the year ended 31 December 2018, representing a decrease of approximately 44.55% from the corresponding period in 2017. The decrease in income tax was mainly due to the declining in profit from the continuing operation of the Group for the year ended 2018.

Loss/profit for the year continuing operations attributable to owners of the Company

Loss for the year from continuing operations attributable to owners of the Company of approximately RMB296,691,000 as compared to a profit for the year from continuing operations attributable to owners of the Company of approximately RMB124,354,000 for the year ended 31 December 2017. The loss for the year from continuing operations attributable to owners of the Company were mainly due to the decline in revenue and gross profit margin and the increase in impairment loss of financial assets.

Loss/profit for the year attributable to owners of the Company

The Group recorded a loss for the year attributable to owners of the Company of approximately RMB678,107,000 for the year ended 31 December 2018 as compared to a profit for the year attributable to owners of the Company of approximately RMB228,781,000 for the year ended 31 December 2017. In addition to the loss for the year from continuing operations as mentioned above, the loss for the year from discontinued operation attributable to owners of the Company were mainly due to loss on disposal of subsidiaries attributable by discounted cash flow of the consideration to be received and the tax expenses resulted from the taxable gain of the disposal of subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity, financial resources and capital structure

As at 31 December 2018, the Group had unrestricted cash and cash equivalents of approximately RMB70,731,000 (2017: RMB204,420,000), restricted cash of approximately RMB154,729,000 (2017: RMB325,765,000), bank deposits with original maturities over three months of nil (2017: RMB1,040,985,000) and borrowings of approximately RMB1,392,251,000 (2017: RMB1,018,492,000). The gearing ratio (calculated by dividing borrowings by total assets) as at 31 December 2018 was approximately 23.57% (2017: 14.56%). As at 31 December 2018, the Group had current assets of approximately RMB4,353,205,000 (2017: RMB6,401,106,000) and current liabilities of approximately RMB2,547,849,000 (2017: RMB2,833,299,000). The current ratio was approximately 1.71 as at 31 December 2018, as compared with the current ratio of approximately 2.26 as at 31 December 2017. The decrease in the current ratio was mainly attributable to the decrease in trade and other receivables and bank deposits with original maturities over three months.

The approach of the Board to manage liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign exchange exposure

The Group's sales and purchases were mainly denominated in Renminbi. Therefore, the Group is not exposed to significant foreign currency exchange risks. The Group does not employ any financial instruments for hedging purposes. While the Board currently does not expect currency fluctuations to materially impact the Group's operations, the Board will review the foreign exchange exposure of the Group from time to time as appropriate.

Capital expenditure

During the year under review, the Group's total capital expenditure amounted to approximately RMB158,143,000 (2017: RMB34,066,000), which was mainly used for procurement for upgrading plant, machinery and equipment.

Capital commitment

As at 31 December 2018, the Group had capital commitment amounting to approximately RMB72,084,000 (2017: nil).

Charge on material assets

As at 31 December 2018, assets of the Group amounting to approximately RMB214,891,000 (2017: RMB386,685,000) were pledged for the Group's borrowings and bills payable.

Contingent liabilities

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

HUMAN RESOURCES

As at 31 December 2018, the Group had 1,172 employees (2017: 1,664 employees). The decrease in the number of employees was mainly due to the disposition of the subsidiaries.

The Group offers its employees competitive salary packages, as well as contribution to defined retirement plans.

The Group's employees are remunerated in line with the prevailing market terms and individual performance, with the remuneration package and policies reviewed on a regular basis. Discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and that of the individual employee.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospect

Looking forward to 2019, the Group will focus its resources on the continuous development of our two major business segments: the ICT and the New Energy segments. The Group expects there are substantial growth opportunities in these two segments.

Opportunities arose 5G Development

With the arrival of 5G era in the near future, there will be rapid increase in wireless connections between the Internet of Things (IoT). It is expected that the IoT market will exceed US$1.7 trillion by 2020, and global IoT devices will approach 70 billion units by 2025. We will proactively seize the opportunities by devoting more resources into our ICT segment. Following the establishment of the factory in Ganzhou of Jiangxi Province, China in 2017, profitability can be improved by the increase in the manufacturing capacity, cost control and developing and integration of ICT products.

At the same time, the Group will actively seek 5G-related acquisition and mergers opportunities, as well as cooperation projects to jointly develop new products with our technology partners.

Latest Development in the New Energy Sector

Vanadium-titanium All-Ceramic Solar Panel Project

The Group intends to set up a vanadium-titanium all-ceramic solar panel project in Jibei Economic Development Zone, Jinan City, Shandong Province, with a total construction floor area of 105,000 square meters. The Group plans to build a total of three vanadium-titanium all-ceramic heat-collecting panels production lines with an annual production capacity of 1 million square meters of heat-collecting panels. The project shall realize an annual output value of RMB1.8 billion after completion. It is also supported by the Jinan Municipal Government and was included as one of the eight new energy conversion key projects in the Jiyang District of Jinan Province in January 2019. Subsequently in February 2019, the project was also included in the 2019 municipal-level key preparatory projects by the Jinan Municipal Government, which demonstrated a great development potential of the market.

The vanadium-titanium all-ceramic solar panels developed by the Group enjoy outstanding advantages of being environmental-friendly, safe, low production cost, durability and stable performance. Vanadium-titanium all-ceramic material is mainly constructed from industrial waste, and is used to absorb solar energy. It possesses high strength, high temperature resistance, corrosion resistance, non-colour fading or non-stains, and has high efficiency and high solar absorption ratio. Currently, the vanadium-titanium all-ceramic product line holds 28 patented technologies and is an ideal material for the new energy sector. In addition, the vanadium-titanium all-ceramic technology has a wide range of applications, including agricultural greenhouse heating systems, residential building heat collection, district central heating, and can generate electricity and desalinate brackish water in desert areas to improve the desert ecological environment.

MANAGEMENT DISCUSSION AND ANALYSIS

The Comprehensive Cooperation in Investment, Construction and Management of Clean Energy Projects in Qinghai and Tibet

On 12 March 2019, the Group entered into a strategic cooperation framework agreement with Qinghai Mingde Energy Group Limited* (青海銘德能源集團有限公司) and Qinghai Juguang High-tech Group Limited* (青海聚光高新科技集團有限公司), pursuant to which the contract parties agreed to carry out comprehensive cooperation in relation to, among others, the investment, construction and management of clean energy projects in Qinghai and Tibet.

The cooperative partners shall, among others, coordinate with relevant government authorities, establish and manage a fund to financially support the Projects and provide management and infrastructure support to the Projects. The Group will, amongst others, provide planning, design and system integration and financial support to the Projects.

The Board is of the view that the entering into the strategic cooperation framework agreement is beneficial to the Company as the projects would enable the contract parties to leverage on their respective strength, resources and expertise to build a stable and mutually-beneficial strategic partnership.

For further details, please refer to the announcement of the Company dated 12 March 2019.

* *for identification purposes only*

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

The current members of the Board and the Group's senior management are listed below.

EXECUTIVE DIRECTORS

- CHAN Yuen Ming, Chairman
- SHAO Kwok Keung, Chief Executive Officer

NON-EXECUTIVE DIRECTORS

- BAO Tiejun

INDEPENDENT NON-EXECUTIVE DIRECTORS

- WONG Che Man Eddy
- LAM Kin Hung Patrick
- FUNG Ka Kin

SENIOR MANAGEMENT

- WANG Yong Zhong, Executive Vice President
- Dr. LI Hiu Yeung, Chief Technology Officer
- CHEN Chushan, Vice-President
- AU Ki Lun, Company Secretary and Head of Corporate Affairs Department

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CHAN Yuen Ming, aged 63, is the Chairman and an executive Director of the Company. Mr. Chan has been with the Group since its establishment in 2006 and is the founder of the Group. Mr. Chan was appointed as an executive Director on 4 December 2007. He is responsible for the Group's overall business development and strategic planning. Since 1990s, he was a key member of the management teams of several communication corporations in the PRC, including Sky Communication Group Co., Ltd ("SkyComm") and its subsidiaries (collectively "SkyComm Group"). These corporations are principally engaged in mobile communication, satellite communication, internet, wireless data and call center businesses. Mr. Chan was the founder of SkyComm Group responsible for establishing the business of SkyComm Group in December 2000. During his time in SkyComm Group up to his resignation from all his positions in the SkyComm Group in December 2008, Mr. Chan was responsible for the overall business development, strategic planning and corporate management and supervision of daily operation of the SkyComm Group. Mr. Chan is currently a director of China All Access Group Limited ("CAA BVI"), All Access Global Limited ("CAA HK"), and other principal operating subsidiaries of the Company (including Shenzhen City Changfei Investment Company Limited ("Changfei Investment") and its subsidiaries (collectively the "Changfei Group")). He is also the director and shareholder of Creative Sector Limited, the controlling shareholder (as defined in the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange")) of the Company.

SHAO Kwok Keung, aged 57, is the Chief Executive Officer and an executive Director of the Company and has joined the Group since December 2007. Mr. Shao was appointed as an executive Director on 4 December 2007. Mr. Shao is a member of the Remuneration Committee and Nomination Committee of the Board. He is responsible for the corporate management of the Company. Mr. Shao graduated with an honours diploma from Hong Kong Baptist College in 1984 and a master degree in business administration from Warwick University, U.K., in 1994. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Possessing more than 20 years of working experience in organizations across different industries, he has taken up finance and management positions in a CPA firm, a financial institution, a television station, satellite communication, telecommunications and consumer electronics product distribution and manufacturing companies. Prior to joining the Group, Mr. Shao was the group financial controller of IDT International Limited (Stock code: 167), a company listed on the Main Board of the Stock Exchange. Mr. Shao is currently a director of CAA BVI, CAA HK and other principal operating subsidiaries of the Company (including Changfei Investment).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Bao Tiejun, aged 60, obtained a master degree in political economics (focusing on business administration) from the School of Economics of Beijing Normal University in 2000. During the period between November 1996 and October 2000, Mr. Bao served as the director of public security, office manager and director of legal affairs and public relations of the Hainan Post and Telecommunications Administration Bureau* (海南省郵電管理局). He joined Hainan Dayou Group Company* (海南電信大有實業有限責任公司), the predecessor of Hainan Telecom Industry Group Corporation Co., Ltd.* (海南省電信實業集團有限公司), as general manager in October 2000, and has since then served as chairman of the board of directors and general manager of Hainan Telecom Industry Group Corporation Co., Ltd. from January 2001 to August 2006. He was also the chairman of Haikou Telecom City Construction Investment Company* (海口電信城市建設投資公司) during September 2002 to June 2008. During the period between August 2006 to March 2009, Mr. Bao served as the general manager of Hainan Communications Services Corporation Limited. Mr. Bao then jointed Guangdong Communications Services Co., Ltd. (廣東省通信產業服務有限公司) in March 2009 and served at various positions including deputy general manager and he is now the senior vice president of Guangdong Communications Services Co., Ltd. Since March 2017, Mr. Bao also serves as an executive director and president of Zhongguangtong Equity Investment Fund Management Company* (中廣通股權投資基金管理公司). Mr. Bao has over 22 years of operational and management experience in the telecommunications industry in China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Che Man Eddy, aged 59, is an independent non-executive Director of the Company. He joined the Group on 19 August 2009 when he was appointed as an independent non-executive Director. Mr. Wong is the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Board. Mr. Wong graduated with an honours diploma in accounting from Hong Kong Baptist College in 1984. Mr. Wong has over 30 years of experience in the auditing and accounting profession. He is the sole proprietor of Eddy Wong & Co., Certified Public Accountants, and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also an independent non-executive director of Sun Hing Vision Group Holdings Limited (Stock code: 125), which is listed on the Main Board of the Stock Exchange.

** for identification purposes only*

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

LAM Kin Hung Patrick, aged 61, is an independent non-executive Director. He joined the Group on 19 August 2009 when he was appointed as an independent non-executive Director. Mr. Lam is the Chairman of the Nomination Committee and a member of the Audit Committee of the Board. Mr. Lam graduated from the University of London with an honoured Bachelor of Laws degree in 1988, from the University of Hong Kong with the Postgraduate Certificate in Laws in 1989, from the University of London with a Master of Laws degree in 1991 and from the City Polytechnic of Hong Kong (now known as the City University of Hong Kong) with a Postgraduate Diploma in Language and Law in 1991. He was admitted as a solicitor of the Supreme Court of Hong Kong and the Supreme Court of England and Wales in 1991, and was subsequently admitted as an Associate of the Chartered Institute of Arbitrators in 1993, and as a practitioner of the Supreme Court of Tasmania, Australia in 1994. He has been appointed as a China Appointed Attesting Officer since 2003. From 1996 to 2000, Mr. Lam had taken up part-time teaching positions in various tertiary institutions in China and Hong Kong, including the 西江大學 (University of Xijiang), the Open University of Hong Kong, Vocational Training Council and Sun Life of Canada (International) Limited, on subjects of law and building management. Mr. Lam is a practising solicitor and is currently a Consultant in Yip, Tse & Tang, a solicitor's firm in Hong Kong.

FUNG Ka Kin, aged 48, is an independent non-executive Director of the Company. He joined the Group on 1 April 2016 when he was appointed as an independent non-executive Director and the Chairman of the Remuneration Committee and a member of the Audit Committee of the Board. He has over 20 years of experience in the auditing and tax advisory profession. He is practising as a certified public accountant in Hong Kong with Dakin CPA Limited. He is a fellow of Hong Kong Institute of Certified Public Accountants and a fellow of The Taxation Institute of Hong Kong and also a Certified Tax Adviser in Hong Kong. He graduated from the Curtin University of Technology with a degree of Bachelor of Commerce in Accounting in 2000.

SENIOR MANAGEMENT

WANG Yong Zhong, aged 49, is the Executive Vice President of the Group. Mr. Wang joined the Group upon the Group's acquisition of Changfei Group in December 2012. Mr. Wang graduated from Xi'an Jiaotong University with a master degree in engineering in 1994, and that same year joined the ZTE Group. Over the following 17 years he held various technical management positions in the ZTE Group in the areas of development and testing, including as director of communications engineering division, vice general manager of the No. 2 sales division, vice general manager of the mobile phone divisions and general manager of the GSM & uMTS products division. From the year 2011 to 2017, he has been the general manager of Lead Communications Co. Ltd., one of the principal operating subsidiaries of the Group. He is also a director of several subsidiaries of the Group.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Li Hiu Yeung, aged 63, graduated from College of Forestry, Guangxi University (廣西大學林學院), with a bachelor's degree of forestry in 1984; and obtained a master degree and doctorate degree in aeroplane design and applied mechanics from 北京航空航天大學研究生院 (Graduate School of Beihang University*) from 1988 to 1994. Dr. Li has long been engaged in scientific research and technological application, industrial manufacturing and international business-related works, involving many areas in advanced technology. In 2008, Dr. Li published a paper in "Frontier Science" (前沿科學) (a science periodical in China) in relation to the light group field theory which has re-recognized the essence of light and its motion characteristics and is completely different from classical physics, quantum physics and other optical theories, which formed the foundation for Dr. Li's invention of the Device. Dr. Li joined the Group since July 2016 as the Chief Technology Officer, focuses on assisting the Group to conduct application research regarding the patent and develop related industrial products.

CHEN Chushan, aged 37, is the Vice President of the Group. Mr. Chen joined the Group in 2013. He is responsible for investment and management of the Group. Mr. Chen graduated from the Thunderbird School of Global Management with an MBA degree in 2007, and in the same year he received his Certificate of Financial Engineering from the university of California, Berkeley. Mr. Chen has over ten years of corporate management, merge and acquisition and investment experience prior to joining the Group. Before joining the Group, he was an Investment Director in ZTE Corporation (Stock code: 763).

AU Ki Lun, aged 37, is the Company Secretary and the Head of the Corporate Affairs Department. Mr. Au joined the Group in February 2013. He is responsible for corporate secretarial function of the Group. Mr. Au graduated from the Florida International University in April 2005 with a bachelor's degree of arts in economics, in December 2006 with a bachelor's degree in accounting, and in December 2007 with a master degree in accounting. Mr. Au also graduated from City University of Hong Kong in 2018 with a Juris Doctor degree. He is a member of the American Institute of Certified Public Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a certified public accountant in the State of Florida, the United States of America. In December 2018, he is elected as the Council Member of the Hong Kong Institute of Certified Public Accountants. He has over ten years of working experience in accounting and investment related positions prior to joining the Group. He is also an independent non-executive director of TOMO Holdings Limited (Stock code: 8463), which is listed on the GEM Board of the Stock Exchange.

** for identification purposes only*

REPORT OF THE DIRECTOR

The board (the "Board") of directors (the "Directors") of China All Access (Holdings) Limited (the "Company") is pleased to present the annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands on 4 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. It has its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and principal place of business at Room 1506-08, 15/F, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group are the provision of communication application solutions and services and investment activities. Other particulars of the subsidiaries of the Company are set out in note 41 to the consolidated financial statements.

BUSINESS REVIEW

Please refer to the section headed "Management Discussion and Analysis" of this annual report for a business review of the Group for the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

Percentage of the Group's total Sales Purchases

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	33%	
Five largest customers in aggregate	75%	
The largest supplier		15%
Five largest suppliers in aggregate		28%

None of the Directors, their close associates (as defined under the Listing Rules) or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued shares) had any interest in these major customers and suppliers.

REPORT OF THE DIRECTOR

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 87 to 210.

TRANSFER TO RESERVES

Loss attributable to shareholders of the Company (the "Shareholders") before dividend of approximately RMB647,057,000 (2017 profit attributable to shareholders: RMB228,781,000) have been transferred to reserves. Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 36 to the consolidated financial statements respectively.

The Company's reserves available for distribution to Shareholders as at 31 December 2018 were approximately RMB647,819,000 (2017: RMB1,700,301,000. The Directors did not recommend the payment of a final dividend (2017: HK5.0 cents) in respect of the year ended 31 December 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment are set out in note 13 to the consolidated financial statements.

INTEREST-BEARING BORROWINGS

Particulars of interest-bearing borrowings of the Group during the year are set out in note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 36 to the consolidated financial statements.

REPORT OF THE DIRECTOR

DIRECTORS

The Directors of the Company during the year under review were as follows:

Executive Directors

Mr. Chan Yuen Ming, Chairman
Mr. Shao Kwok Keung, Chief Executive Officer
Mr. Xiu Zhi Bao, Head of Planning and Finance Department (retired on 12 October 2018)
Mr. Yan Wei, Vice-President (retired on 13 June 2018)
Mr. Tian Zheng, Vice-President (retired on 13 June 2018)

Non-executive Director

Mr. Bao Tiejun (Appointed on 15 February 2019)

Independent non-executive Directors

Mr. Wong Che Man Eddy
Mr. Lam Kin Hung Patrick
Mr. Fung Ka Kin

In accordance with article 105(A) of the Company's articles of association, not less than one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Bao Tiejun and Mr. Wong Che Man Eddy will retire as Director. Mr. Lam Kin Hung Patrick, being eligible, offers himself for re-election as Director at the Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming Annual General Meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTOR

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the senior management of the Group by band for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of senior management
Nil to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	—
HK$2,000,001 to HK$2,500,000	—
HK$2,500,001 to HK$3,000,000	—
HK$3,000,001 to HK$3,500,000	1
HK$3,500,001 to HK$4,000,000	—
HK$4,000,001 to HK$4,500,000	—
HK$4,500,001 to HK$5,000,000	—
	4

Further details of the Directors' remuneration and the five highest paid employees for the year are set out in notes 11 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2018 and up to the date of this report, there was or is permitted indemnity provision (within the meaning in Section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) in the articles of association of the Company being in force. The Company has maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover certain legal actions brought against its directors and officers arising out of corporate activities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, which were not contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year.

REPORT OF THE DIRECTOR

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

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

Name of Director	Entity in which interest are held	Capacity/ Nature of interest	Number and class of securities Held (Note 1)	Approximate percentage of shareholding (Note 4)
Mr. Chan Yuen Ming ("Mr. Chan")	The Company	Interest of a controlled corporation (Note 2)	614,175,546 ordinary Shares (L)	32.62%
		Beneficial owner	1,000,000 ordinary Shares (L)	0.05%
Mr. Shao Kwok Keung ("Mr. Shao")	The Company	Beneficial owner (Note 3)	24,800,000 ordinary Shares (L)	1.32%

Notes:

(1) The letter "L" denotes a long position in the shares or underlying shares of the Company or any of its associated corporations and the letter "S" denotes a short position in the shares or underlying shares of the Company or any of its associated corporations.

(2) These Shares were held by Creative Sector Limited, the entire issued share capital of which was owned by Mr. Chan, an executive Director. Mr. Chan was deemed to be interested in all the Shares in which Creative Sector Limited was interested by virtue of the SFO.

(3) On 10 June 2015 and on 26 September 2018, a total of 9,000,000 share options and a total of 15,000,000 share options respectively (each share option entitling the holder to subscribe for one Share) were granted to Mr. Shao under the share option scheme of the Company. As at 31 December 2018, all these share options remained outstanding.

(4) Calculated on the basis of 1,882,669,216 Shares in issue as at 31 December 2018.

REPORT OF THE DIRECTOR

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the interests and short positions of each person other than a Director or chief executive of the Company, in the Shares or underlying Shares of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Number and class interest of securities Held (Note 1)	Approximate percentage of shareholding (Note 4)
Creative Sector Limited	Beneficial owner	614,175,546 ordinary Shares (L)	32.62%
Li Hiu Yueng	Beneficial owner	36,056,000 ordinary Shares (L)	1.92%
	Interest of a controlled corporation (Note 2)	148,000,000 ordinary Shares (L)	7.86%
Light Group Field Sci-Tech Limited	Beneficial owner (Note 2)	148,000,000 ordinary Shares (L)	7.86%
Tianan Property Insurance Co., Ltd	Beneficial owner (Note 3)	117,000,000 ordinary Shares (L)	6.21%

Notes:

(1) The letter "L" denotes a person's long position in the Shares or underlying Shares and the letter "S" denotes a person's short position in the Shares or underlying Shares.

(2) As at 31 December 2018, the entire issued share capital in Light Group Field Sci-Tech Limited was owned by Dr. Li Hiu Yeung. Dr. Li was deemed to be interested in all the Shares in which Light Group Field Sci-Tech Limited was interested by virtue of the SFO.

(3) Based on the disclosure of interest notice filed by Tianan Property Insurance Co., Ltd. under Part XV of the SFO in respect of its interests in Shares and Underlying Shares as of 3 June 2015, being the last disclosure of interest notice filed by it in respect of its interests in Shares and underlying Shares by 31 December 2018, Tianan Property Insurance Co., Ltd. Had long position in 117,000,000 Shares in the capacity of beneficial owner.

(4) Calculated on the basis of 1,882,669,216 Shares in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares of the Company that were recorded in the register kept by the Company under section 336 of the SFO.

REPORT OF THE DIRECTOR

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, the Company had repurchased a total of 117,054,000 shares ("Shares") of HK$0.01 each on the Stock Exchange (2017: Nil) Subsequently, all repurchased Shares were cancelled.

Date of repurchase	Number of Shares Repurchased	Price paid per Share Highest (HK$)	Lowest (HK$)	Aggregate purchase price paid (HK$)
17 May 2018	1,088,000	1.90	1.75	1,993,240.00
18 May 2018	3,416,000	1.76	1.73	5,971,220.00
25 May 2018	88,100,000	0.80	0.69	62,860,000.00
19 June 2018	2,934,000	0.77	0.73	2,214,289.80
22 June 2018	2,024,000	0.77	0.75	1,536,620.80
25 June 2018	2,598,000	0.78	0.75	1,989,288.60
26 June 2018	772,000	0.78	0.77	596,678.80
27 June 2018	2,288,000	0.78	0.77	1,783,496.00
3 July 2018	3,100,000	0.78	0.75	2,378,320.00
4 July 2018	1,490,000	0.78	0.77	1,159,369.00
10 July 2018	1,288,000	0.77	0.76	989,828.00
11 July 2018	2,636,000	0.77	0.75	2,003,096.40
16 July 2018	2,720,000	0.74	0.73	1,997,840.00
17 July 2018	1,300,000	0.74	0.73	957,060.00
20 July 2018	1,300,000	0.75	0.74	963,040.00

ISSUE OF SECURITIES

During the year ended 31 December 2018, the Company had not issued any securities.

REPORT OF THE DIRECTOR

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

i) *Termination of Acquisition of Qinghai Juguang High New Technology Group Co., Ltd.* (青海聚光高新科技集團有限公司)*

On 22 May 2018, Shenzhen Lead Innovative Energy Co., Limited, being the wholly-own subsidiary of the Company (the "Purchaser") and Ganzhou Zhongyuan Huaxun Network Technology Co., Ltd.* (贛州中遠華訊網絡技術有限公司) (the "Vendor") entered into the sale and purchase agreement (the "Acquisition Agreement") for the acquisition of 83.33% of the entire equity interest (the "Sale Interest") in Qinghai Juguang High New Technology Group Co., Ltd.* (青海聚光高新科技集團有限公司) (the "Target Company"), at a consideration with the maximum price of RMB800,000,000. Pursuant to the Acquisition agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase the Sale Interest. The consideration for the Sale Interest shall be determined based on an agreed multiple of 1.6 of the audited net profit of the Target Company for years 2018 to 2022. The consideration shall be paid by the Purchaser in cash by five installments, each installment be paid by the Purchaser to the Vendor within 30 business days after the date of issue of the audited report of the Target Company.

The completion of the Acquisition agreement is conditional upon fulfillment of the following conditions:

(1) all authorization, approvals, consents necessary for the purpose of completing the transaction contemplated under the Acquisition Agreement being obtained;

(2) the Acquisition Agreement and the transaction contemplated thereunder being approved by the Shareholders at the EGM;

(3) the other shareholder(s) of the Target Company having approved the Acquisition and having waived their preemptive rights;

(4) the Purchaser having completed all the business, financial and legal due diligence review of the Target Company and its business and being satisfied with such results;

(5) the Vendor having delivered a valuation report of the Target Company within 60 business days after the date of the Acquisition Agreement with appraised value of not less than RMB400,000,000;

(6) the Vendor having procured the Target Company to complete the acceptance inspection and obtain property ownership certificate of its production facilities within 60 business days after the date of the Acquisition Agreement;

(7) the Vendor having procured the Target Company to complete the acceptance inspection of its photovoltaic station in Haixi and to receive subsidies for green energy within 60 business days after the date of the Acquisition Agreement;

(8) the Vendor having procured the Target Company to complete the construction, connection and acceptance inspection of its photovoltaic station in Huzhu within 60 business days after the date of the Acquisition Agreement; and

REPORT OF THE DIRECTOR

(9) the representations and warranties made by the Vendor under the Acquisition Agreement being true and correct from the time they were made until the Completion Date.

As some of the conditions precedent have not been fulfilled and the Vendor and the Purchaser have not reached an agreement on the extension of the date for fulfilment of the conditions precedent. Accordingly, on 29 November 2018, the Purchaser issued a termination notice to the Vendor (the "Termination Notice"), which provides that the Acquisition Agreement shall be terminated with effect from 29 November 2018 as a result of the non-fulfilment of the conditions precedent. Please refer to the announcements of the Company dated on 24 May 2018, 23 July 2018, 31 August 2018, 28 September 2018, 26 October 2018 and 29 November 2018 for details.

ii) Disposal of Hebei Noter Communication Technology Co., Limited* (河北諾特通信技術有限公司) ("Hebei Noter") and Hebei Haoguang Communication Technology Limited* (河北浩廣通信科技有限公司) ("Hebei Haoguang")

On 3 June 2018, China All Access Group Limited (中國全通集團有限公司) ("AAG"), a wholly-owned subsidiary of the Company and China RS Group Limited (中國榮勝集團有限公司) ("China RS") entered into the disposal agreement (as supplemented by a disposal supplemental agreement) (collectively, the "Disposal Agreement") for the disposal of the entire equity interest in the Hebei Noter (the "Sale Interest"), which held 90% equity interest in Hebei Haoguang, at the consideration of RMB1,750,000,000.

Pursuant to the Disposal Agreement, AAG has conditionally agreed to sell, and China RS has conditionally agreed to purchase the 100% of the entire equity interest in Hebei Noter.

The consideration for the sale interest is RMB1,750,000,000 which shall be payable in the following manner:

(1) RMB175,000,000, being 10% of the consideration, shall be payable within 60 business days after date of the Disposal Agreement;

(2) RMB350,000,000, being 20% of the consideration, shall be payable within six months after date of the Disposal Agreement;

(3) RMB350,000,000, being 20% of the consideration, shall be payable within 12 months after date of the Disposal Agreement;

(4) RMB350,000,000, being 20% of the consideration, shall be payable within 18 months after date of the Disposal Agreement;

(5) RMB350,000,000, being 20% of the consideration, shall be payable within 24 months after date of the Disposal Agreement; and

(6) RMB175,000,000, being 10% of the consideration, shall be payable within 30 months after date of the disposal agreement.

REPORT OF THE DIRECTOR

Pursuant to the Disposal Agreement, China RS shall create a share charge on the Sale Interest in favor of AAG, and if, among others, China RS defaults its payment of the consideration pursuant to the Disposal Agreement, (i) AAG shall be entitled to enforce the charge on the Sale Interest and take possession of Hebei Noter; (ii) 10% of the consideration then paid by China RS to the AAG shall be forfeited, or (if not paid by China RS) payable by China RS to AAG as penalty payment; and (iii) all remaining payments of the consideration then received by AAG from China RS shall be returned to China RS.

Completion is conditional upon fulfillment of the following conditions:

(1) all authorization, approvals, consents necessary for the purpose of completing the transaction contemplated under the Disposal Agreement being obtained, including those required by the respective board of directors of AAG and China RS and the shareholders of AAG, and any approval of filing required by any governmental and administrative bureau;

(2) the disposal agreement and the transaction contemplated thereunder being approved by the shareholders of the Company at the EGM;

(3) the legal and financial due diligence review having been completed within 60 business days after the date of the disposal agreement; and

(4) the representations and warranties made by AAG under the disposal agreement being true and correct from the time they were made until the completion date.

As at 31 December 2018 and the date of this annual report, the above conditions had been fulfilled. Please refer to the announcements or circular of the Company dated 8 June 2018, 13 July 2018, 31 August 2018, 28 September 2018, 26 October 2018, 14 November 2018, 3 December 2018 and 11 April 2019 for detail.

* *the English translation of the Chinese name is for information purposes only, and should not be regarded as the official English translation of such name*

REPORT OF THE DIRECTOR

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 34 to the consolidated financial statements and in the section headed "Share option scheme" in this report of the directors, at no time during the year were there rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor (natural or adopted), or were such rights exercised by them; nor was the Company or any of the subsidiaries of the Company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 28 August 2009. Eligible participants of the Share Option Scheme include: (i) any employee (whether full time or part time, including any executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly owned by one or more eligible participants as referred to in (i) to (vii) above. Subject to the earlier termination of the Share Option Scheme in accordance with its rules, the Share Option Scheme shall remain in force for a period of ten years commencing on 28 August 2009.

The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time. The maximum number of Shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee 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 (as defined under the Listing Rules), 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 (as defined under the Listing Rules), in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

REPORT OF THE DIRECTOR

The total number of Shares which may be issued upon the exercise of all options (excluding for this purpose options which have lapsed) which may be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 121,682,400 Shares, representing 10% of the Shares in issue as at 28 June 2012 (i.e. the date that the 10% general scheme limit of the Share Option Scheme was refreshed by an ordinary resolution passed by the Shareholders at an extraordinary general meeting of the Company) and approximately 6.63% of the Shares in issue as at the latest practicable date prior to the issue of this report.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and end on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share. Share options do not confer rights on the holders to dividends or to vote at Shareholders' meetings of the Company.

On 10 June 2015, a total of 50,000,000 share options (each share option entitling the holder to subscribe for one Share) were granted to eligible participants including two Directors and the rest were employees of the Group.

Details of the movements in the Company's outstanding share options granted under the Share Option Scheme for the year ended 31 December 2018 were as follows:

REPORT OF THE DIRECTOR

Grantee	Outstanding as at 1 January 2018	Granted during the year ended 2018	Exercised during the year ended 2018	Lapsed or cancelled during the year ended 2018	Outstanding as at 31 December 2018	Exercisable Period	Exercise price per share (HK$)	Closing price per share on the trading day immediately before the date of grant (HK$)
	Number of Shares in respect of share options							
A. Directors								
Shao Kwok Keung	3,000,000	–	–	–	3,000,000	10 June 2016 to 9 June 2019	3.05	3.01
	3,000,000	–	–	–	3,000,000	10 June 2017 to 9 June 2019	3.05	3.01
	3,000,000	–	–	–	3,000,000	10 June 2018 to 9 June 2019	3.05	3.01
Xiu Zhi Bao	2,333,333	–	–	2,333,333	–	10 June 2016 to 9 June 2019	3.05	3.01
	2,333,333	–	–	2,333,333	–	10 June 2017 to 9 June 2019	3.05	3.01
	2,333,334	–	–	2,333,334	–	10 June 2018 to 9 June 2019	3.05	3.01
B. Employees								
In aggregate	8,483,333	–	–	2,316,666	6,166,667	10 June 2016 to 9 June 2019	3.05	3.01
	8,483,333	–	–	2,316,666	6,166,667	10 June 2017 to 9 June 2019	3.05	3.01
	8,483,334	–	–	2,316,668	6,166,666	10 June 2018 to 9 June 2019	3.05	3,01
Total	41,450,000	–	–	13,950,000	27,500,000			

On 26 September 2018, a total of 80,000,000 share options (each share option entitling the holder to subscribe for one Share) were granted to eligible participants including two Directors and the rest were employees of the Group.

REPORT OF THE DIRECTOR

Details of the movements in the Company's outstanding share options granted under the Share Option Scheme for the year ended 31 December 2018 were as follows:

Grantee	Number of Shares in respect of share options: Outstanding as at 1 January 2018	Granted during the year ended 2018	Exercised during the year ended 2018	Lapsed or cancelled during the year ended 2018	Outstanding as at 31 December 2018	Exercisable Period	Exercise price per share (HK$)	Closing price per share on the trading day immediately before the date of grant (HK$)
A. Directors								
Shao Kwok Keung	–	5,266,666	–	–	5,266,666	26 September 2019 to 25 September 2022	0.69	0.68
	–	5,266,667	–	–	5,266,667	26 September 2020 to 25 September 2022	0.69	0.68
	–	5,266,667	–	–	5,266,667	26 September 2021 to 25 September 2022	0.69	0.68
B. Employees								
In aggregate	–	21,400,000	–	–	21,400,000	26 September 2019 to 25 September 2022	0.69	0.68
	–	21,400,000	–	–	21,400,000	26 September 2020 to 25 September 2022	0.69	0.68
	–	21,400,000	–	–	21,400,000	26 September 2019 to 25 September 2022	0.69	0.68
Total	–	80,000,000	–	–	80,000,000			

As the Share Option Scheme will soon be expired, the Board proposed the termination of the Share Option Scheme and the adoption of a new share option scheme of the Company for the approval by shareholders at the Annual General Meeting. Details of the new share option scheme are set out in the circular of the Company dated 30 April 2019.

REPORT OF THE DIRECTOR

ENVIRONMENTAL POLICIES AND PERFORMANCES

The current environmental protection laws and regulations promulgated by the PRC government impose a progressive scale of fees for the discharge of waste materials and require the payment of fines for pollution and the closure of any facility which causes serious environmental problems. Production plants are required to have environmental protection facilities designed to operate simultaneously with the production facilities. Due to the nature of the businesses of the Group, a certain level of noise, certain amount of waste water and solid waste production materials will be produced during the production processes. Therefore, the Group is required to satisfy tests carried out from time to time by relevant local environmental regulatory authorities for smoke emissions, noise level, solid waste disposal and waste water discharges. Non-compliance with any environmental laws, rules or regulations may, depending on the seriousness of the violation, result in an order for rectification from the authorities, penalties, or an order for cessation of production. Please refer to the Environmental, Social and Governance Report set out from P.42 to P.62 for details.

CONTRACTS OF SIGNIFICANCE

Except as disclosed in note 44 to the consolidated financial statements and under "Disclosure pursuant to Rule 13.21 of the Listing Rules" below, no Director or an entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year.

Except as disclosed in note 44 to the consolidated financial statements, no contract of significance (whether it is in relation to provision of services to the Group or not) had been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters in relation to the annual report of the Group for the year ended 31 December 2018.

The audit committee of the Board has reviewed the annual report of the Group for the year ended 31 December 2018.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

REPORT OF THE DIRECTOR

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float as required under the Listing Rules.

FINAL DIVIDEND

The Board did not recommends the payment of a final dividend for the year ended 31 December 2018 (2017: HK5.0 cents per Share).

DIVIDEND POLICY

The Company has adopted a dividend policy ("**Dividend Policy**"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group.

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on HKFRSs, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining members who are qualified for attending the forthcoming Annual General Meeting, the register of members of the Company will be closed from 7 June 2019 to 12 June 2019 (both days inclusive), during which period no transfer of the Shares will be effected. In order to qualify for attending the Annual General Meeting or any adjournment thereof, all share transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office (the "Branch Share Registrar") of the Company, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong with effect by no later than 4:00 p.m. on 6 June 2019.

REPORT OF THE DIRECTOR

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

As disclosed in the announcement of the Company dated 23 August 2016, on 23 August 2016, the Company and Mr. Chan Yuen Ming ("Mr. Chan") entered into a note purchase agreement (the "Note Purchase Agreement") with Prosper Talent Limited (the "Prosper Talent"), pursuant to which the Company has agreed to issue, and Prosper Talent has agreed to purchase from the Company, US$70,000,000 guaranteed notes (the "Prosper Talent Notes") due 2017. Pursuant to the Note Purchase Agreement, Mr. Chan shall also provide a personal guarantee in favour of Prosper Talent to secure, among others, the due and punctual observance and performance by the Company under the Note Purchase Agreement and other documents in connection with the transaction contemplated under the Note Purchase Agreement.

Pursuant to the Note Purchase Agreement, the following specific performance obligations are imposed on Mr. Chan that, during the term of the Note Purchase Agreement and the Prosper Talent Notes:

(a) He shall remain as the chairman and an executive director of the Board;

(b) He shall legally and beneficially own the entire issued share capital of Creative Sector; and

(c) He shall procure that Creative Sector shall not, without the prior written consent of Prosper Talent, transfer or agree to transfer any Shares held by Creative Sector.

Any breach of the above specific performance obligations may constitute a breach under the Note Purchase Agreement and also an event of default under the Prosper Talent Notes, pursuant to which Prosper Talent may require the Prosper Talent Notes to be repaid immediately pursuant to the terms and conditions of the Prosper Talent Notes.

On 24 August 2017, a supplemental deed was entered into, among others, the Company, Mr. Chan and Prosper Talent to amend the Note Purchase Agreement and the terms and conditions of note such that, among others, the maturity date of the notes and date of repayment would be extended from August 2017 to various dates up to August 2018 but the above specific performance obligations remain unchanged.

As at the latest practicable date prior to the printing of this annual report, the above specific performance obligations continued to subsist.

REPORT OF THE DIRECTOR

AUDITORS

The Company has appointed HLB Hodgson Impey Cheng Limited as auditors of the Company for the year ended 31 December 2018. HLB Hodgson Impey Cheng Limited will retire as the Company's auditors at the end of the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-appointment. A resolution will be proposed for approval by Shareholders at the forthcoming annual general meeting of the Company to re-appoint HLB Hodgson Impey Cheng Limited as the Company's auditors for the year ending 31 December 2019.

By Order of the Board
China All Access (Holdings) Limited
Mr. Chan Yuen Ming
Chairman

Hong Kong, 29 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. ABOUT THIS REPORT

Upholding the core value of "Integrity Foremost, Application Oriented" (信為先，用為本), the vision of "Technology paves the way to smart life" (讓科技開啟智慧生活) and adhering to the aim of developing premium integrated information communication solutions and innovative smart terminals that enhance convenient communication, China All Access (Holdings) Limited and its subsidiaries (the "Group" or "We") actively performs the enterprises' environmental and social responsibilities.

Not only has the Group made tremendous progress in its business expansion and economic development, we also have paid great attention to environmental protection and the fulfilment of their social responsibilities. With a strong ambition and commitment to forge an eco-friendly, resilient and reliable enterprise that pioneers in sustainable development compared to its peers in the industry, the Group never stops its footstep in exploring new ways to change its business model and operating practice in order to make contributions to addressing the pressing global climate change-related challenge.

The Group is pleased to present Environmental, Social and Governance ("ESG") Report to demonstrate the Group's approach and performance in terms of ESG management and corporate sustainable development for the financial year ended 31 December 2018. This ESG report is prepared in full compliance with the ESG Reporting Guide as set out in Appendix 27 of the Listing Rules on The Stock Exchange of Hong Kong Limited. To deliver a formalised and internationally compatible ESG report, the Group referenced recommendations of the Task Force on Climate-related Financial Disclosures to improve the integrity, international compatibility and industrial comparability of the report.

II. REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG Report covers the environmental and social performance within the operational boundaries of the Group including data and activities of the Group's office in Hong Kong and the PRC, and two manufacturing facilities in Shenzhen. The reporting period of this ESG Report is the financial year from 1 January 2018 to 31 December 2018 ("FY2018"), unless specifically stated otherwise. This ESG report is prepared in English and Chinese, if there is any conflict or inconsistency, the English version shall prevail.

III. ABOUT THE GROUP

China All Access (Holdings) Limited is a leading provider of smart technology-based complete information communication solutions and services.

Holding a service-oriented and technology-based corporate philosophy, producing a series of leading integrated information system solutions and advanced technology devices, the Group has driven a significant development in the areas of social public security, governmental emergency communication and urban comprehensive management in China, and in doing so we have gained customers' trust and an excellent social reputation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With more than 20 years' industry experience and an acute sense of the market's development, the management team has shown the ability to organically combine the knowledge of innovative solutions with the R&D and production of smart terminal devices. In 2012, the Group acquired the controlling ownership of Changfei Group, a company with over 10 years of extensive R&D and production experience. This powerful combination will enhance the Group's corporate scale, to meet the ever-increasing market demands for advanced technology, products and services.

IV. BOARD INCLUSIVENESS

The Group has developed its internal strategies and policies with aims to create sustainable values to its stakeholders, thereby to large extent minimising the Group's undue impact on the environment. In order to carry out the Group's sustainability strategy from top to bottom, the Board of Directors ("Board") of the Group has ultimate responsibilities for ensuring the effectiveness of the Group's ESG policies.

The Group has established dedicated teams to manage ESG issues within each business division of the Group and kept monitoring and overseeing the progress against corporate goals and targets for addressing climate change. Dedicated teams with designated staff for management of ESG issues has been assigned to enforce and supervise the implementation of the relevant ESG policies cascading through the Group.

With the forward-looking guidance and well-designed plans of action to address underlying ESG matters, the management and responsible teams keep reviewing and adjusting the Group's sustainability policies to satisfy the ever-changing needs of its stakeholders on a regular basis. For instance, through the assignment of the responsibility of progress tracking to different management-level positions, the Group is committed to achieving an excellent performance in ESG management while also remaining competitive compared with its peers. Details of the Group's management approaches in both the environmental and social aspects are elaborated in different sections of this ESG report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

V. STAKEHOLDER ENGAGEMENT

An effective communication with both internal and external stakeholders is regarded essential to the Group in many areas. Not only deliver the Group's commitment to long-term value creation to stakeholders who care about the level of sustainable development of the Group, but also helps the Group gains a better understanding of those topic's material and relevant to different groups of stakeholders.

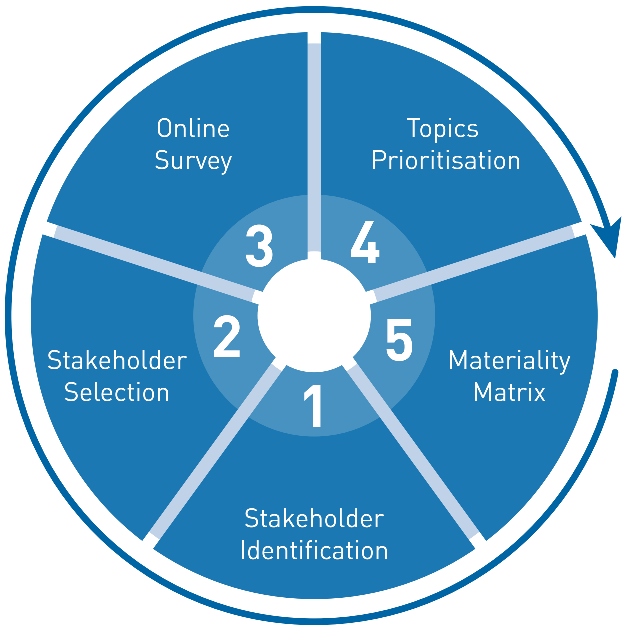
With the goal to strengthen corporate sustainability approach and performance while enhancing stakeholders' awareness of ESG and sustainability issues, the Group has put tremendous efforts into its internal and external stakeholder inclusiveness. The Group highly values the feedback from its stakeholders and takes initiative to build a trustful and supporting relationship with them through their preferred communication channels, which are listed in the table below.

Stakeholders	Expectations and concerns	Communication Channels
Government and regulatory authorities	—Compliance with laws and regulations —Support economic development	—Supervision on complying with local laws and regulations —Routing reports and taxes paid
Shareholders	—Return on investments —Corporate governance —Business compliance	—Regular reports and announcements —Regular general meetings —Official website
Employees	—Employees' compensation and benefits —Career development —Health and safety working environment	—Performance reviews —Regular meetings and trainings —Emails, notice boards, hotline, caring activities with management
Customers	—High quality products and services —Protect the rights of customers	—Customer satisfaction survey —Face-to-face meetings and on-site visits —Customer service hotline and email
Suppliers	—Fair and open procurement —Win-win cooperation	—Open tendering —Suppliers' satisfactory assessment —Face-to-face meetings and on-site visits —Industry seminars
General public	—Involvement in communities —Business compliance —Environmental protection awareness	—Media conferences and responses to enquiries —Public welfare activities —Face-to-face interview

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Assessment

Since ESG risks and opportunities for companies vary across industries and depend on specific business patterns of companies, the Group undertakes annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG report. In FY2018, the Group engaged its stakeholders to conduct a materiality assessment survey initiated by a third-party agency in order to guarantee the accuracy and objectivity of evaluation. Specifically, internal and external stakeholders including customers, suppliers, business partners, board members and employees from various business units of the Group were chosen and assessed based on their respective influence and dependence on the Group. Stakeholders were invited to express their concerns on a list of sustainability issues via an online survey to pinpoint the ESG issues that were identified as material to the Group's business development and strategies. Through a science-based materiality assessment to prioritise the topics from the entire inventory of ESG issuers, the Group eventually formulated a materiality assessment matrix below, which could genuinely reflect the real concern of its stakeholders on ESG matters and facilitate the Group to develop actions plans for effective ESG management.



According to the outcome of the materiality analysis matrix, the Group identified seven ESG issues that are of great significance to both the Group and its stakeholders from the inventory of 29 sustainability topics, namely "Customers Satisfaction", "Prevention Bribery, Extortion, Fraud and Money Laundering", and "Anti-Corruption Policies and Whistle-Blowing Procedures". Besides these, the Group also engages stakeholders with the Sustainability Development Goals ("SDGs") to determine the future goals for Group ESG policy. The Group has identified "Target 9: Industry, Innovation and Infrastructure" and "Target 10: Reducing Inequalities" as the most concerned goals for the sustainability development. This review and assessment helped the Group to objectively prioritise its sustainability issues, precisely identify the material and relevant aspects, and make for the purposeful documentation and disclosure of its ESG performance so as to align them with stakeholders' expectations.

Stakeholders Feedback

As the Group strives for excellence, stakeholders' feedback is always welcomed, especially on topics listed as the highest importance in the materiality assessment and its ESG approach and performance. Readers are also welcome to share your views with the Group at SPRG-CAA@sprg.com.hk.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VI. ENVIRONMENTAL SUSTAINABILITY

The Group is committed to the long-term sustainability of the environment and community in where it operates. The Group has complied with relevant environmental laws and regulations set out in Hong Kong and the People's Republic of China (the "PRC"). The Group stringently controls its emissions and consumption of resources in daily operations.

This section primarily discloses the policies and practices of the Group along with the quantitative data on emissions, use of resources, the environment and natural resources during FY2018.

A.1. Emissions

The Group currently operates two factories in Shenzhen to produce solar facilities and communication application and owns offices in the PRC and Hong Kong. The Group strictly complies with relevant laws and regulations set out in the PRC and Hong Kong, including the

- Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》);
- Water Pollution Protection Law of the People's Republic of China (《中華人民共和國水污染保護法》);
- Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》); and
- Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong).

The Group is committed to making its integrated information and communication products in ways that protect the environment, managing the manufacturing line, eliminating and reducing the emissions including solid wastes, waste water and greenhouse gases. The Group strictly controls the chemical used in manufacturing process and guaranteed there is no chemicals leaked into the environment. For the offices, the emissions are insignificant than those of the production sites.

During FY2018, the Group commissioned independent environmental consultants to inspect its discharge of industrial wastewater, gas emissions and noise produced. The Group has never received any complaint on the environmental pollution issues from surrounding residents and regulators. The emission results are generally within the applicable emission guidelines. All the emission data are illustrated in Table 1.

Manufacturing facilities in Shenzhen

Due to the nature of this business, manufacturing factories in Shenzhen mainly generate industrial and municipal wastewater and solid wastes. Other air emissions form the use of vehicles and electricity and use of natural gas in restaurants are also generated in daily operation. The Group conducted regular treatments on the wastes during the manufacturing process and kept meticulous monitoring and controlling on the emissions especially air emission, waste water, solid waste and noise control, in order to guarantee the emissions are all complied with the corresponding discharge standards of the PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater

The wastewater generated from the manufacturing operations includes industrial wastewater and domestic wastewater. Domestic wastewater is discharged directly to local wastewater treatment plant for further treatment through pipes. Industrial wastewater comes from the cooling process, which is collected separately and sealed in specific containers for unified treatment in local professional industrial wastewater treatment company. The wastewater treatment company commits that industrial wastewater is discharged to the sewage disposal plant for further treatment after confirming the eligibility of all the emission indexes.

To reduce the amount of wastewater, the Group strictly controls and monitors the wastewater and has implemented different measures such as turning off vacant production machine and increasing the recycle rate for cooling.

Solid waste

The main solid waste from the production process is the leftover materials and offcuts from the manufactured products, used cleaning rags for machines, wasted containers and domestic garbage produced from the daily operations in offices. The hazardous solid waste from the production segment amounted to 0.3 tonnes in FY2018, which has been dealt by qualified local industrial waste treatment company. All the hazardous wastes generated during the production are emitted under the compliance with corresponding emission standards.

The Group has been continuously performing the separate collection method on daily domestic garbage to ensure the reuse of the recyclable waste. Apart from the daily domestic garbage, the Group has carefully collected the waste packaging materials by category, such as paper, cardboard and used boxes for centralised recycling and re-usage purpose.

Air emissions

Air emissions of the Group mainly come from the use of vehicles and use of natural gas form the restaurant and dormitory. Since the Group uses diesel and gasoline for powering vehicles, the exhaust gases generated from car use are mainly sulphur oxides ("SO_x") and nitrogen oxides ("NO_x"). The air emissions from the use of natural gas are mainly carbon dioxide and leaked natural gas.

All the exhaust gases are emitted after ensuring the compliance with relevant emission regulations. Online monitor facilities have also been implemented to test whether the emitted gases meet the emission regulations. Meanwhile, anti-dust equipment has been implemented and professional inspecting companies have been irregularly invited to run environmental inspection.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Greenhouse gases ("GHGs")

The Greenhouse gases ("GHGs") emissions from the manufacturing process are mainly generated from its purchased electricity. The GHGs emissions are positively correlated with electricity consumption. To reduce the amount of carbon emission, the Group has implemented several practical measures on saving energy as further described in the next section "**A.2. Use of Resources**".

Noise

The noise sources of manufacturing process mainly include the transportation of raw materials, fans and mechanical noise. The noise during daytime and night fully meets the national noise control requirements. To lower the manufacturing noise, the Group has refreshed the production facilities. The Group received no complaint on noise issue in FY2018.

Offices in Hong Kong and the PRC

The emissions from offices in Hong Kong and the PRC of the Group is insignificant compared to those of manufacturing factories. The wastewater and solid waste are dealt by the property management company and the amount of air emissions are insignificant. The Group is committed to keeping the daily operations in a waste reduction and energy saving manner. The Group collects domestic wastes separately and makes appropriate reuse on the recyclable materials. Also, proper electricity consumption manner has been advocated to minimise the GHGs emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Table 1 Total emissions of the Group by category in FY2018

Item	Type of emissions		Unit	Amount	Intensity (Per employee)
Air emissions	Vehicles	SOx	kg	1.3	–
		NOx	kg	21.3	–
GHG emission	Scope 1	Stationary combustion	Tonnes CO_2-e	18.3	–
		Mobile combustion	Tonnes CO_2-e	204.1	0.2
	Scope 2	Purchased electricity	Tonnes CO_2-e	3,291.4	2.6
	Total		Tonnes CO_2-e	3,513.7	2.8
Industrial wastes	Solid waste		kg	300	0.2
	Wastewater		M^3	36,999.1	29.0
Non-hazardous waste	Non-hazardous solid waste		kg	2,500.0	2.0
	Non-hazardous wastewater		M^3	11,596.1	9.1

During the year under review, the Group was not in violation of any relevant laws and regulations that have a significant impact on the Group in terms of emissions.

A.2. Use of Resources

The Group complied with the relevant laws and regulations with regards to its use of resources, including but not limited to Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and Provisions on the Management of Water Conservation in Cities (《城市節約用水管理規定》) during the year under review. Resources used by the Group mainly include electricity, natural gas, diesel, gasoline and water. The Group has also consumed some packaging materials, which is insignificant compared to other resources consumed. Hence, this section has excluded from this report.

The Group strives to save energy and resources through persistent implementation of internal policies and advanced technologies in order to ensure that the resources are consumed in a responsible manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water

The water consumption of the Group comes from domestic water usage and production water usage. The industrial water consumption is significantly larger than the domestic water consumption. The Group has educated its employees to save water in the daily working hours. The amount of domestic water consumed is minimal and need-based. To improve the utilization efficiency of water resources, the Group has formulated the internal regulation as below:

- Perform regular propaganda and education work on saving every drop of water among its staff;
- Place "Saving Water Resource" posters in prominent places to encourage water conservation;
- Collect used water for cooling purposes, floor cleaning, toilet washing and yard washing if possible;
- Carry out regular leakage tests on water tap, washers and other defects in the water supply system;
- Adapt advanced technology to increase recycling rate; and
- Fix dripping taps immediately.

Electricity

The Group keeps a detailed record of its electricity consumption. All subsidiaries of the Group stringently comply with the Group's policy of saving energy. The Group is committed to saving electricity from both production lines and daily operation in office by executing the following measures:

- Switch off the vacant lights and air-conditioning;
- Maintain a constant temperature of the air-conditioners;
- Replace the central air-condition in the production process;
- Place "Saving Electricity, turn off the Light when Leaving" posters in prominent places to remind employees;
- Keep the office equipment clean (such as refrigerator, air-conditioner and paper shredder) and ensure that they run efficiently;
- Remove unnecessary production facilities;
- Replace old equipment with new electricity-saving equipment;
- Turn off the computers, copy machines and drinking machines after work;
- Replace high electricity consumption lamps with LED lights for office lighting; and
- Reduce lighting at well-lighted areas and turn off lights after work uniformly.

In office area of the factories, the Group has changed ordinary light bulb into LED light bulb, while the production line has changed the T8 light bulb into T5 light bulb. Also, the newly implemented air-conditioning system is estimated to save 50 MWh electricity per year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy

The Group consumed gasoline, natural gas and diesel in FY2018. The Group encourages energy saving through simple measures, such as making the best use of room to avoid unnecessary transport and replacing old production equipment with new ones. Apart from these, the Group also highly encourages its staff to take public transportation or environmental-friendly buses instead of driving to work. The Group is dedicated to making contribution to the reduction of GHG emissions.

Other resources

Other resources consumed by the Group is packaging materials, paper and stationary. The packaging materials consumed from the manufacture segment is plastic and paper. However, the amount of paper and stationary consumed from the offices are insignificant. The Group has implemented active strategies to save the resources as following:

- Collect the paper consumption data by department and purchase accordingly every month;
- Replace pen holders every three month;
- Encourage double sided print in black and white and set print limit;
- Recycle the single sided paper or draft paper;
- Promote automation system and implement paperless electronic file transfer mode;
- Use environmentally-friendly paper to print annual report; and
- Place recycle tray beside copy machine to recycle paper.

Table 2 Total resource consumption of the Group by category in FY2018

Item	Types of Resources	Unit	Amount	Intensity (Per employee)
Energy consumption	Gasoline	L	77,561.1	60.8
	Diesel	L	7,618.8	6.0
	Natural Gas	m^3	8,734.0	6.8
Electricity		kWh	6,240,388.0	4,891.0
Water consumption		m^3	49,985.0	39.2
Packaging material	By plastic	tonnes	19.5	—
	By paper	tonnes	9.3	—

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A.3. The Environment and Natural Resources

The Group has strictly complied with the relevant laws and regulations, namely Law of the People's Republic of China on Circular Economy Promotion (《中華人民共和國循環經濟促進法》) and Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), in relation to the environment and the use of natural resources during the year under review.

Sustainable Development Goals (SDGs) of United Nations defined the vision and priorities of global sustainability in 2030 and call on all enterprises to maximise their innovation capabilities for addressing the challenges of sustainability and to some degrees accomplishing the 17 sustainability goals together. With an ambitious target to integrate the global sustainable development goals into its business strategies, The Group references the SDG Compass and commits to achieve the understanding of sustainability goals, setting of priorities and long-term goals, integration and implementation of corporate sustainability efforts, and effective reporting and communication in the near future.

To eliminate the impact on the environment, the Group has implemented various measures in daily operations. For example, the Group has replaced old central air-condition with the newest energy-saving water-cooled central air-condition in the production area. Employees are encouraged to use public transport to travel for work. The Group also invested in environmental protection equipment in FY2018 and installed gas treatment equipment in production line. The dormitory also implemented solar water heaters to reduce the use of natural gas.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VII. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

The Group views talents as its most valuable assets and the key driving factor in ensuring the success and sustainable development of the Group. We strive to provide our employees with a safe and suitable platform for developing their career, professionalism and advancement.

Law compliance

The Group's human resources policies fully align with the applicable employment laws and regulations in Hong Kong and the PRC, such as:

- Employment Ordinance (Chapter 57 of the Laws of Hong Kong);
- Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong);
- Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong);
- Labour Law of the People's Republic of China (《中華人民共和國勞動法》);
- Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》); and
- Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》).

The Group has also complied with the laws and regulations in respect to the employees' social security schemes that are enforced by the local government, such as the social security benefits (including the provision of pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund) in the PRC and Mandatory Provident Fund Scheme and Medical Insurance Scheme in Hong Kong. To make sure that the relevant internal policies are fully in line with the latest laws and regulations, it is the Group's human resources department that reviews and updates corporate documents in talent management on a regular basis.

Recruitment and promotion

Talent acquisition is vital in ensuring the sustainable development of the business. Adhering to the core values, "Integrity Foremost, Application Oriented" of the Group, we have high requirements on our employees. The Group prepares the "Year Recruitment Plan" and adopts a variety of initiatives to facilitate the recruitment of staff, such as internet, institutions' recruitment seminars and agents, to attract talented employees. All the recruitment procedures are transparent to ensure the fairness. To attract high-calibre candidates, the Group offers fair, competitive remuneration and benefits based on the individuals' past performance, personal attributes, job experiences and career aspiration. The Group also references market benchmarks and internal budget in determining its remuneration and benefit policies.

The Group ensures all the employees are treated fairly and get development and promotion opportunities when appropriate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Compensation and dismissal

We have strictly adhered to local policies relating to employees' compensations, such as Minimum Wage Standards and Overtime Payment Accounting Standards to ensure employees' benefit. We have also implemented multi-level wage labour inspection system to review working time, which helps us to properly assess employees' performance. The Group constantly reviews its compensation packages and performs probationary and regular evaluations according to the overall market environment, profitability of the Group and employee's performance in the past. This ensures that employees are recognised by the Group appropriately with respect to their efforts and contributions. The Group gives bonus to employees according to their performance and set share point scheme as a long-term incentive plan for key management staff. By improving the remuneration system and career paths, the Group expects to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward the harmonious and stable employment relationship.

Meanwhile, any appointment, promotion or termination of employment contract would be based on reasonable and lawful grounds along with internal policies, such as staff handbooks. The Group strictly prohibits any kind of unfair or unreasonable dismissals.

Working hours and rest period

The Group has formulated its own internal policies based on local employment laws and Rules of the State Council on Working Hours and Staff Members (《國務院關於職工工作時間的規定》) to determine working hours and rest period for employees. We have implemented working hours monitor system to monitor employees' working hours. For overtime work, the Group has overtime payment and compensation rest hours for employees.

In addition to basic paid annual leave and statutory holidays prescribed by the employment laws of the local governments, employees may also be entitled to additional leave entitlements such as marriage leave, maternity leave and funeral leave.

Equal opportunity and anti-discrimination

As an equal opportunity employer, the Group is committed to creating a fair, respectful and diverse working environment by formulating Equal Opportunity Policy (《平等就業政策》) in all its human resources and employment decisions. For instance, training and promotion opportunities, dismissals and retirement policies are based on factors irrespective of the employees' age, sex, marital status, pregnancy, family status, disability, race, colour, descent, national or ethnic origins, nationality, religion or any other non-job related factors in all business units of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The equal opportunity policy allows zero tolerance in relation to any workplace discrimination, harassment or vilification in accordance with local ordinances and regulations, such as Disability Discrimination Ordinance (Chapter 487 of the Laws of Hong Kong), Race Discrimination Ordinance (Chapter 602 of the Laws of Hong Kong) and Sex Discrimination Ordinance (Chapter 480 of the Laws of Hong Kong). Employees are encouraged to report any incidents involving discrimination to the human resources department of the Group. The Group shoulders the responsibility for assessing, dealing with, recording and taking any necessary disciplinary actions in relation to such incidents.

Other benefits and welfare

The Group provides additional benefits and welfare such as medical subsidies and hospitalisation scheme to employees. For those employees working at a manufacturing facility, additional employee benefits include the provision of well-equipped dormitories and meals are provided. The Group also hosts a series of activities, such as outing, talent competition and department dinner, for its employees to enhance the sense of belongings and relieve stress, which exemplified the Group's corporate culture of enhancing the spirit of solidarity and cohesion among its employees.

In terms of internal communication, the effective two-way communication between the general staff and managerial staff is highly encouraged within the Group. The employees maintain timely and smooth communication with each other and the management through a variety of ways including phones, regular meetings and social meetings. Maintaining a barrier-free employer-employee relationship helps create a productive and pleasant working environment.

During the year under review, the Group was in compliance with relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, welfare and other benefits that have a significant impact on the Group.

B.2. Health and Safety

To provide and maintain good working conditions and a safe and healthy working environment for its employees, the Group has established internal safety and health policies, which are in line with various laws and regulations stipulated by Hong Kong and the PRC. The specific laws and regulations include:

- Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong);
- Production Safety Laws of the People's Republic of China (《中華人民共和國安全生產法》);
- Regulation on Work-Related Injury Insurance (《工傷保險條例》); and
- Occupational Disease Prevention Law of the People's Republic of China (《中華人民共和國職業病防治法》).

The Group has established a comprehensive mechanism and stringent safety and labour practice standards to ensure workplace to minimise the risk of accidents and enhance employees' health and safety awareness.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Besides, the Group strictly follows several operating health and safety standards including GB/T29639-2013, GBZ 1-2010, GB12011-2009, GB2811-2007 and sets up internal manuals such as Environment and Safety Monitor and Control Process (《環境及健康安全監測控制程序》) in order to provide a healthy and safe working environment to employees. The quality management department has performed annual evaluation on the compliance of laws and regulations for senior managers' review.

Under those manuals, the Group keeps a record on the hidden dangers and accidents and evaluates the accomplishment on danger control. In addition, the Group prohibits smoking and drinking while enhancing the safety awareness of employees. Regular safety meetings and trainings are held to all employees in the operating areas. The Group has always been committed to providing a safe and healthy environment by incorporating a range of occupational health and safety measures for all the employees in the offices and production sites, such as regular disinfection treatment of carpets, cleaning of air-conditioning systems, building up safety warning signs and setting up safe and healthy work bulletin.

The Group has complied with relevant laws to provide protection equipment such as masks and earplugs and has adopted alternate working system with an aim to protect employees from occupational hazards. Employees involved in special type of work shall possess required work permits and wear shielding shoes and safety helmet. The Group has hosted emergency exercise (including safety drill, emergency management, machine safeguarding, occupational health and safety and hazardous material handling) annually and set safety signs to enhance employees' safety awareness. The Group targets to achieve accident-free workplace environment.

In FY2018, no work-related fatalities and no lost days due to work injury occurred in the Group's related activities. During the year under review, the Group was not in violation of any of the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group,

B.3. Development and Training

Training is the behaviour and process of trainees to earn knowledge, skills, attitudes and even directed improvement of behaviour through systematic and continuous systematic learning so that they can complete the work at an expected level. Training is investment to improve organizational performance, reduce costs, improve quality and improve customer satisfaction and can effectively solve problems.

The Group offers comprehensive training and development programmes to its staff in order to strengthen their work-related skills and knowledge. Trainings can be divided into internal trainings and external trainings to comprehensively increase employees' quality and ability. For newly recruited staff, the Group provides training regarding to their roles, positions, Group policies and cultures. The employees have to pass the induction training before becoming a formal employee. For other employees, trainings are focused on personal professional skill training and management training. The Group aims to foster a learning culture that strengthens its employees' professional knowledge.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group also encourages outstanding employees to attend external trainings for enhancing their competitiveness and expanding their capability through continuous learning. The Group may arrange external training organisations and trainers to provide job-related trainings to its employees. For those who passed professional training and obtain relevant certificate, the employees can apply for reimbursement and receive corresponding exam leave.

The Group aims to foster a learning culture that could strengthens its employees' professional knowledge, so as to benefit the Group as employees are expected to achieve better working performance after receiving appropriate training. Employees' performances in the trainings are considered in the employees' performance evaluations.

B.4. Labour Standards

The Group strictly abides by the laws and regulations in Hong Kong and the PRC related to labour standards to prohibit any child and/or forced labour employment, including but not limited to:

- Employment Ordinance (Chapter 57 of the Laws of Hong Kong);
- Labour Law of the People's Republic of China (《中華人民共和國勞動法》);
- Prohibition of Child Labour of the People's Republic of China (《中華人民共和國禁止使用童工規定》); and
- Protection of Minors Law of the People's Republic of China (《中華人民共和國未成年人保護法》).

To combat illegal employment on child labour, underage workers and forced labour, and to ensure that applicants are lawfully employable, all employees are required by the Group's human resources staff to provide valid identification document prior to the confirmation of employment. The human resources department is responsible for monitoring and ensuring compliance with the latest and relevant laws and regulations that prohibit child labour and forced labour. The Group has regular review on the human resources policies and the human resources department established reporting mechanism to monitor and ensure the compliance of all relevant laws and regulations.

During the year under review, the Group was not in violation of any of the relevant laws and regulations, in relation to the prevention of child and forced labour that have a significant impact on the Group.

OPERATING PRACTICES

B.5. Supply Chain Management

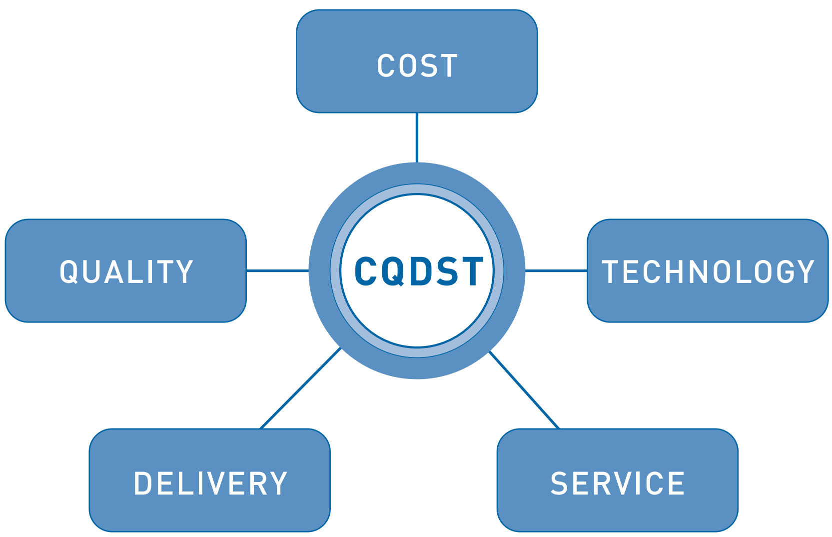
As a socially responsible enterprise, it is critical and vital for the Group to maintain and manage a sustainable and reliable supply chain that has minimal negative repercussions on the environment and society. The Group achieves this goal by conducting comprehensive evaluation of potential and existing suppliers. The principal raw materials used in the production are LCD panels, driver IC, backlight, polarizer, glass cover, tough IC and auxiliary materials. The suppliers of the Group are gathered in Guangdong Province, especially in Shenzhen.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has established internal policies for searching potential suppliers. When searching for potential suppliers, the Group has taken the following aspects into consideration:

- Advantaged business scale in the industry;
- Certification for quality management system (ISO9001);
- Experience in manufacturing integrated information and communication product;
- Cooperation wellness;
- Adaptation of product (when the industry is in a relevant low level);
- Production experience of two years or above;
- Cost effective;
- Principle of proximity for structural component, packaging materials and other non-wearable materials with low value;
- Certificate for QC080000 or other relevant certification if necessary; and
- The recognition of factories, agent and merchant.

After searching for potential suppliers, the sourcing engineer runs basic production and agent evaluation and issue Application for Import of New Supplier Form (《新供方導入申請表》). A site assessment team led by souring engineer and composed by staffs from relevant department will assess the potential suppliers through Supplier Evaluation Report (《供應商／外協廠稽核報告》), ISO9001 quality standard and the special requirement for corresponding materials and perform environmental evaluation separately after the assessment of relevant departments and the vice president. Approved suppliers are required to sign the quality commitments and other agreement issued by the Group and added to the Qualified Supplier List (《合格供應商清單》). The quality department, R&D department, logistics department and warehouse department conduct CQDST evaluation independently every month, which includes cost, quality, delivery, service and technology. The suppliers fail in the CQDST evaluation for three-month will be suspended.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The cooperation philosophy of the Group with suppliers is win-win cooperation. To better manage the risks in supply chain, the Group has established Supplier Risk Identification and Management Principle (《供應商風險識別及管控規範》) and set half-year bids to manage the share of each supplier to lower the risk in supply chain.

In relation to existing suppliers, the quality control force formed from cross-disciplinary departments will conduct regular and coordinated assessments on the suppliers based on an established scoring mechanism. The assessments are based on criteria such as the suppliers' price, product quality, transportation and delivery capacity, reputation, financial situation, aftersales service, complaint mechanism and environmental and social responsibility, to ensure the performance of the suppliers and to confirm their products meet our stringent manufacturing standards. The Group has regularly reviewed its list of qualifying suppliers.

The Group attaches great importance to the communication with the suppliers to build internal trust. To facilitate better cooperation and communication with suppliers and maintain a long-term strategic cooperation relation, the Group regularly provides quality management training and give advices on production risk management and handing quality deficiency to its supplier during supplier meeting. To ensure sufficient supply, the Group has kept close contact with the suppliers and reserved products in advance. Therefore, the suppliers are reliable after long-term cooperation. Given the solid and steady relationships with its suppliers, the Group did not experience any material delays in receiving supplies from its suppliers in past years.

To manage environmental risks in supply chain, all suppliers have to sign Safety Commitment and Supplier Green Commitment. The on-site assessment teams are also responsible to check whether the supplier has proper environmental management team and hazardous material management system. To ensure the compliance with environmental requirements, the Group requires suppliers to provide evidence to show hazardous materials will not be used in the production of goods provided to the Group.

B.6. Product Responsibility

In order to protect the legitimate rights and interests of consumers and strengthen the supervision on the quality of products, the Group has complied with related laws and regulations on products safety and health including:

- Law of the People's Republic of China on Product Quality (《中華人民共和國產品質量法》);
- Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》); and
- Law of the People's Republic of China on the Protection of Production Safety (《中華人民共和國安全生產法》).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year under review, the Group was not in violation of any relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters of its products that may have a significant impact on the Group. As a leading participant in the integrated information and communication industry in the PRC and adhering to our service philosophy of prioritising customer and quality, quick responding with continuous improvement, the Group has attached great importance on product responsibility and quality. The quality management system adheres to internationally recognized technical specification on ISO14001, OHSAS18001 and ISO9001.

For continuous improvement of the quality of products, different departments are responsible for their own duties. The project tram takes the lead in project developing while the engineering department optimise the processes and develop new production processes. The quality assurance department of the Group is responsible for handling comprehensive quality control and assurance issues from development stage to finished product and after-sale services. In the manufacturing process, apart from the products' functional testing and visual inspection, the quality assurance department is responsible for arranging reliability testing, including extreme temperature and humidity test, electrostatic shock test and drop test, and other ordinary automated testing procedures. These tests can reliably simulate the real conditions where products are used by customers and identify any manufacturing and design defects.

If there are any defective products, the Group is responsible for contacting customer who has purchased the product, collecting the sample products from customers for quality testing and analysis and requiring distributors to recall disqualified products if necessary.

The Group has customer service managers to closely listen to customers' feedback and addresses most after-sales concerns, including any product complaints and product recalls. If there is any complaint, the customer service managers will inform the Group and gather relevant staffs to rectify the mistake and prevent such accidents in the future according to the internal regulation.

The Group has issued internal guideline to ensure all the sales materials providing accurate and precise descriptions and information to customers which comply with the relevant laws and regulations for local operations such as Advertising Law of the People's Republic of China (《中華人民共和國廣告法》). Any misrepresentation or exaggeration advertisements are strictly prohibited. The administrative department has closely monitored released marketing materials and product labelling to prevent inappropriate or exaggerated advertisement. If there is any violence with the internal guidelines, the Group would carry out corrective action immediately. In addition, the internal guidelines have been regularly updated with the latest regulations released by the government.

The Group has been dedicated to protecting and enforcing intellectual property rights which is crucial to the sustainable business growth in the integrated information and communication industry. The intellectual property right (IPR) management team has been established to monitor IPR related risks surrounding all group functions, including R&D, human resources, procurement, sales, production, finance and other functions to ensure that the IPR risk level is controlled within an acceptable range.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has generally entered into agreement with business partners to protect the IPR of the Group by using the intellectual property on the sales only. The Group also prohibits business partners to participate in any activities that may infringe upon the Group's interest. The employees have also been responsible to maintain business secrets and other proprietary intellectual properties confidentially.

The Group is committed to abiding by the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong), and Law on Protection of Consumer Rights and Interests of the People's Republic of China (《中華人民共和國消費者權益保護法》) to ensure customer's information is under strict protection. Information collected would only be used for the purpose for which it has been collected and customers would be told about how the data collected would be used in business. The Group prohibits the provision of consumer information to a third party without authorisation from the customers. Customers remain the rights to review and revise their data and remain the rights to opt out from any direct marketing activities. All collected personal data is treated confidentially and is kept securely, accessible by designated personnel only. Through the internal training and confidential agreements with employees, the Group emphasise on confidentiality obligations and the legal consequences for the breaches of obligations.

During the year under review, the Group has not in violation of any relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided.

B.7. Anti-corruption

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the local laws and regulations relating to anti-corruption and bribery, irrespective of the area or country where the Group conducts its business, such as

- Law of the PRC on Anti-money Laundering (《中華人民共和國反洗錢法》);
- Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong); and
- Prevention of Bribery Ordinance (Chapter. 201 of the Laws of Hong Kong).

The Group has formulated and strictly enforced its anti-corruption policies and comprehensive internal operating manuals to prevent any corruption. To minimise corruption activities within the Group, we have adopted more transparent anti-bribery and anti-corruption policies and programs, demonstrated the concept of fair operation, strengthened employee compliance standards, accessed the compliance risks of operations to enhance the capability of risk management. All employees are expected to discharge their duties with integrity and self-discipline, and are required to abstain from engaging in bribery, extortion, fraud and money laundering activities or any activities which might exploit their positions against the Group's interests.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has no tolerance to any corruption and has set whistle-blowing policy to report any corruption. We encourage employees to report any suspicious actions in operation. Relevant evaluation, consultation, investigation and punishment have been written in the Whistle-blowing policy. Whistle-blowers can report verbally or in writing to the risk management and internal audit department or the senior management of the Group for any suspected misconduct with full details and supporting evidence. The management will conduct investigations against any suspicious or illegal behaviour to protect the Group's interests. The Group advocates a confidentiality mechanism to protect the whistle-blowers against unfair dismissal or victimisation through security regimes.

During the year under review, the Group was not in violation of any of the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

COMMUNITY

B.8. Community Investment

The Group believes that community is the foundation on which the company depends for survival and development. All business activities of the company will fully consider the interests of the community. The Group places great emphasis on employee benefits and cultivating social responsibility awareness among employees, encourages them to voluntarily participate in charitable community activities and focuses on environmental protection. Participation in such projects helps the Group formulate policies and objectives, which are in line with the interests of these communities reciprocally.

We treasure our employees and consider them as part of our family. To enhance employees' sense of belongs and relieve their working pressure, the Group has organised sporting activities, such as outings, climbing and corporate basketball competition, and cultural activities such as singing competition and guess riddle. For sick employees, the Group also organised comfort visit to show our concern.

For the volunteer work, we have organised outdoor waste recycling and encourage employees to participate in transportation management during the year under review. These measures help us to maintain the stabilization of the local community.

Beside these, the Group has also organised photography competition with the theme of environmental protection. This helped employees to further understand the pollution in surrounding areas and alert other people to pay more attention to contaminations around themselves and take measures to protect the environment.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhancing corporate governance and transparency of the Group by applying the principles and complying with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The audit committee of the Board is delegated by the Board with the corporate governance functions set out in code provision D.3.1 of the CG Code and is responsible for reviewing the Company's compliance with the CG Code and making recommendations to the Board.

Save as disclosed below, during the year ended 31 December 2018, the Company was in due compliance with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Pursuant to E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Chan Yuen Ming, an executive Director and the chairman of the Board, did not attend the annual general meeting of the Company held on 13 June 2018 due to other business engagements and instead, Mr. Shao Kwok Keung, an executive Director and the chief executive officer of the Company, took the chair at the annual general meeting. The Board considers that the arrangement is appropriate as Mr. Chan, as chairman of the Board, is responsible for the Group's overall business development and strategy whereas Mr. Shao, as chief executive officer, is responsible for the corporate management of the Company. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry with all the Directors and all of them confirmed that they had fully complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

(A) Composition of the Board

During the year ended 31 December 2018, the composition of the Board was as follows:

Name of Directors	Other positions in the Company
Executive Directors:	
Mr. Chan Yuen Ming	Chairman of the Board ("Chairman")
Mr. Shao Kwok Keung	Chief Executive Officer ("CEO") Member of the Remuneration Committee Member of the Nomination Committee
Mr. Xiu Zhi Bao (resigned on 12 October 2018)	Head of Planning and Finance Department
Mr. Yan Wei (retired on 13 June 2018)	Vice President of the Company
Mr. Tian Zheng (retired on 13 June 2018)	Vice President of the Company
Non-executive Directors:	
Bao Tiejun (appointed on 15 February 2019)	

Name of Directors	Other positions in the Company
Independent Non-Executive Directors:	
Mr. Wong Che Man Eddy	Chairman of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Mr. Lam Kin Hung Patrick	Chairman of the Nomination Committee Member of the Audit Committee
Mr. Fung Ka Kin	Chairman of the Remuneration Committee Member of the Audit Committee

There are no relationship, including financial, business, family or other material relationships, between members of the Board and between the Chairman and the CEO.

(B) Responsibility of the Board

The Board is responsible for leading the Company by setting the overall strategies and objectives, designing the business development plans, monitoring and controlling its operating and financial performance and making key decisions. The tasks of day-to-day management and operations of the Group are entrusted to the executive Directors and the senior management who are closely supervised by the Board to ensure compliance with the Company's policy and objectives.

CORPORATE GOVERNANCE REPORT

(C) Directors' Attendance at Board and General Meetings

During the year ended 31 December 2018, the Company held seven Board meetings (excluding Board committee meetings) and one general meeting. The attendance of each Director at these meetings, by name, is set out below:

Name of Directors	Attendance/Number of board meetings held	Attendance/Number of general meetings held
Executive Directors		
Mr. Chan Yuen Ming	12/13	0/2
Mr. Shao Kwok Keung	13/13	2/2
Mr. Xiu Zhi Bao	9/10	0/1
Mr. Yan Wei	5/6	0/1
Mr. Tian Zheng	5/6	0/1
Independent Non-executive Directors		
Mr. Wong Che Man Eddy	9/13	2/2
Mr. Lam Kin Hung Patrick	11/13	1/2
Mr. Mr. Fung Ka Kin	11/13	1/2

The individual attendance record of the Directors at meetings of the remuneration committee, nomination committee and audit committee of the Board are set out in the section headed "Board Committees" of this corporate governance report.

(D) Independence of the Independent Non-executive Directors

The Company has received written confirmation from each of the independent non-executive Directors regarding his independence with reference to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers that each of the independent non-executive Directors to be independent.

(E) Terms of Appointment of the non-executive Directors

Each of the Independent Non-executive Directors is appointed for an initial term of two years renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term of his appointment, unless terminated by not less than three months' notice in writing served by either the Company or the relevant Independent Non-executive Director expiring at the end of the initial term or at any time thereafter. In accordance with the articles of association of the Company (the "Articles of Association"), at each annual general meeting of the Company, at least one-third of all the Directors (including the Independent Non-executive Directors) shall retire from office by rotation at least once every three years and each of the retiring Director shall be eligible for re-election at the annual general meeting of the Company at which he retires.

CORPORATE GOVERNANCE REPORT

(F) Continuous Professional Development of Directors

To ensure the Directors' contribution to the Board remains informed and relevant and in compliance with code provision A.6.5 of the CG Code, the Company shall arrange and fund suitable training for Directors to develop and refresh their knowledge and skills. During the year under review, the Directors participated in the kinds of training in compliance with code provision A.6.5 of the CG Code as follows:

Name of Directors	Kind of Training
Executive Directors	
Mr. Chan Yuen Ming	A,B
Mr. Shao Kwok Keung	A,B
Independent Non-executive Directors	
Mr. Wong Che Man Eddy	A,B
Mr. Lam Kin Hung Patrick	A,B
Mr. Mr. Fung Ka Kin	A,B

A: Reading materials on legal and regulatory updates

B: Attending seminar, training and/or conferences relevant to the Group's business or Directors' duties

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and CEO of the Company are separate and performed by different individuals. The Chairman of the Board, Mr. Chan Yuen Ming, is responsible for the Group's overall business development and strategic planning. Mr. Shao Kwok Keung, the CEO, is responsible for the corporate management of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

In compliance with the Listing Rules and principles of good corporate governance, the Company has established the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the audit committee (the "Audit Committee") of the Board to assist the Board in the overall supervision of the management of the Company.

(A) Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of all Directors passed on 28 August 2009.

The Remuneration Committee currently comprises three members, namely, Mr. Fung Ka Kin (Chairman of the Remuneration Committee and an independent non-executive Director), Mr. Wong Che Man Eddy (independent non-executive Director) and Mr. Shao Kwok Keung (executive Director).

The role and function of the Remuneration Committee are set out in its written terms of reference. The written terms of reference are published on the websites of the Stock Exchange and the Company. The principal duties of the Remuneration Committee include (1) making recommendations to the Board on the Company's policy and structure for the remuneration of the Directors and the senior management,(2) making recommendations to the Board on the remuneration packages of each executive Director and member of the senior management, (3) making recommendations to the Board on the remuneration packages of non-executive Directors, (4) ensuring that no Director or any of his associate is involved in deciding his own remuneration and (5) reviewing and approving compensation arrangements relating to dismissal or removal of Directors.

During the year ended 31 December 2018, the Remuneration Committee had held two meetings to review and make recommendations to the Board regarding the remuneration of the Directors and the senior management. The attendance record of each member of the Remuneration Committee at its meeting is set out below:

Name of Directors	Attendance/Number of meetings held
Executive Director:	
Mr. Shao Kwok Keung	3/3
Independent Non-executive Directors:	
Mr. Fung Ka Kin (Chairman of the Remuneration Committee)	3/3
Mr. Wong Che Man Eddy	3/3

CORPORATE GOVERNANCE REPORT

(B) Nomination Committee

The Company established the Nomination Committee pursuant to a resolution of all Directors passed on 28 August 2009.

The Nomination Committee currently comprises three members, namely, Mr. Lam Kin Hung Patrick (chairman of the Nomination Committee and an independent non-executive Director), Mr. Wong Che Man Eddy (independent non-executive Director) and Mr. Shao Kwok Keung (Executive Director). The role and function of the Nomination Committee are set out in its written terms of reference. The written terms of reference are published on the websites of the Stock Exchange and the Company. The principal duties of the Nomination Committee include (1) reviewing the structure, size and composition of the Board on a regular basis, (2) identifying suitably qualified candidates for directorship, (3) making recommendations to the Board on the selection of nominated individuals for directorship and matters related to appointment or re-appointment of Directors, (4) assessing the independence of the Independent Non-executive Directors (5) succession planning for Directors, and (6) reviewing the Board's diversity policy.

The Nomination Committee follows a set of procedures when recommending candidates for directorship.

The following criteria are considered in selecting a candidate:

- Integrity, objectivity, and intelligence of the person, with reputations for sound judgment and open mind, and a demonstrated capacity for thoughtful group decision-making;

- Qualification and career experience; and

- Understanding of the Company and its corporate mission.

When a candidate is proposed for directorship of the Company, he or she shall be evaluated on the basis of the criteria set out in the procedures mentioned above. Selection of the suitable candidate is based on a majority vote. Each committee member will be asked to express his or her view before voting. After voting, the chairman of the Nomination Committee will report its recommendations to the Board.

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the Company has adopted a board diversity policy as set out below.

(i) Policy statement: In determining the optimum composition of the Board, differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors will be taken into account. All Board appointments will be based on merit while taking into account Diversity.

CORPORATE GOVERNANCE REPORT

(ii) Measurable objectives: The Nomination Committee shall develop measurable objectives for implementing this policy and make recommendations to the Board. The Nomination Committee shall also review the progress of achieving these objectives as may be adopted by the Board from time to time.

Based on the business needs of the Group, the following measurable objectives have been set for implementing the policy:

(a) a prescribed proportion of Board members shall be non-executive Directors or independent non-executive Directors;

(b) a prescribed proportion of Board members shall have attained bachelor's degree or above;

(c) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications;

(d) a prescribed proportion of Board members shall have more than seven years of experience in the industry he is specialized in; and

(e) a prescribed proportion of Board members shall have China-related work experience.

(iii) Implementation and monitoring: The Nomination Committee shall review the Board's composition including the skills, knowledge, experience and diversity of perspectives and the effectiveness of the board diversity policy and its measurable objectives at least annually. Based on its review, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the board diversity policy of the Company.

During the year ended 31 December 2018, the Nomination Committee had held two meetings to review the structure, size and composition of the Board and the board committees. The attendance record of each member of the Nomination Committee at its meeting is set out below:

Name of Directors	Attendance/Number of meetings held
Executive Director:	
Mr. Shao Kwok Keung	2/2
Independent Non-executive Directors:	
Mr. Lam Kin Hung Patrick (Chairman of the Remuneration Committee)	2/2
Mr. Wong Che Man Eddy	2/2

CORPORATE GOVERNANCE REPORT

(C) Audit Committee

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 28 August 2009. The Audit Committee currently comprises three members, all being independent nonexecutive Directors, namely, Mr. Wong Che Man Eddy (chairman of the Audit Committee), Mr. Fung Ka Kin and Mr. Lam Kin Hung Patrick. The role and function of the Audit Committee are set out in its written terms of reference. The Audit Committee is delegated with the corporate governance functions under code provision D.3.1 of the CG Code. Please refer to the written terms of reference of the Audit Committee published on the websites of the Company and the Stock Exchange for further details.

The principal duties of the Audit Committee include:

On external audit:

- Making recommendations to the Board on appointment, reappointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- Reviewing and monitoring the external auditors' independence as well as the objectives and effectiveness of the audit process in accordance with applicable standards;
- Discussing with the external auditor before the audit commences the nature and scope of the audit and reporting obligations and ensuring co-ordination where more than one audit firm is involved; and
- Developing and implementing policy on the engagement of the external auditor to provide non audit services.

On financial information of the Company:

- Monitoring integrity of the interim and annual financial statements and interim and annual reports and accounts, and reviewing significant financial reporting judgments contained therein before submission to the Board, with a focus on the fairness and reasonableness of any connected transaction;
- Reviewing the Group's financial and accounting policies and practices;
- Reviewing the external auditors' management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or system of control and management response;
- Considering any significant or unusual items that are, or may need to be, reflected in the interim and annual reports and accounts and giving due consideration to any matters that have been raised by the Board; and
- Meeting with the external auditor of the Company at least once a year, and to discuss any problems or reservations arising from the interim and final audits, and any matters the auditors my wish to discuss (in the absence of the management where necessary).

CORPORATE GOVERNANCE REPORT

On internal control and risk management:

- Reviewing the Group's financial controls and its internal control and risk management system;

- Discussing with the Group's management the system of risk management and internal control and ensuring that the management has discharged its duty to have effective systems, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and its training programs and budget;

- Considering any findings of major investigation of risk management and internal control matters as delegated by the Board or on its own initiative and management's responses thereto;

- Ensuring co-ordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing within the Group; and

- Reporting to the Board on the matters raised in the CG Code.

On corporate governance functions:

- reviewing the effectiveness of the Group's corporate governance policies and practices and to make recommendations to the Board;

- ensuring that appropriate monitoring systems are in place to ensure compliance against the relevant internal controls systems, processes and policies;

- reviewing and monitoring the Group's communication policy with its shareholders;

- reviewing and monitoring the training and continuous professional development of directors and senior management of the Group;

- reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements; and

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance Report.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2017, the Audit Committee held three meetings to review the annual and interim results of the Company, the internal control and risk management of the Company and the corporate governance of the Company. The attendance record of each member of the Audit Committee at its meeting is set out below:

Name of Directors	Attendance/Number of meetings held
Independent Non-executive Director:	
Mr. Wong Che Man Eddy (Chairman of the Audit Committee)	2/2
Mr. Lam Kin Hung Patrick	2/2
Mr. Fung Ka Kin (appointed on 1 April 2016)	2/2

AUDITORS' REMUNERATION

For the year ended 31 December 2018, the fees for services rendered by HLB Hodgson Impey Cheng Limited is set out below:

	Fees (RMB'000)
Audit services	5,738
Interim review	1,068
Audit-related services	667
	7,473

COMPANY SECRETARY

The Company Secretary (Mr. Au Ki Lun) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section headed "Biography of Directors and Senior Management" of this annual report (page 19).

In 2018, the Company Secretary received more than 15 hours of training to upgrade his professional skills and expertise.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining a sound and effective internal control system for the Company to safeguard the investments of the shareholders and assets of the Company at all times.

The Board has conducted a review on the internal control system of the Group for the financial year ended 31 December 2018, details of which are set forth below:

(A) Internal Control System

The principal functions of the internal control system are to help achieve the Group's business objectives, safeguard assets and maintain proper accounting records for the provision of reliable financial information. The system is designed to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

The following key processes have been adopted by the Board in reviewing the adequacy and integrity of the internal control system for the Group:

(1) Monitoring mechanisms and corporate culture

There are periodic meetings of the Board attended by the Directors. The Board committees and the management of the Company represent the main platform by which the Company's performance and behavior are monitored. The day-to-day business operations are entrusted to the CEO and the management team. Under the supervision of the CEO, the heads of all departments are empowered with the responsibilities to manage their respective operations.

The Board is responsible for setting the business direction and for overseeing the Group's operations with the aid of the various Board committees.

(2) Enterprise risk management framework

The Board recognizes that an effective risk management framework will allow the Group to identify, evaluate and manage the risks that affect the achievement of the Group's objectives within defined risk parameters in a timely and effective manner.

The management of the Group is responsible for identifying the risks affecting the Group and evaluating the effectiveness of the existing controls to determine whether mitigation action shave to be formulated accordingly. Regular internal meetings are conducted by the Group's management to facilitate the exchange of views between the management team members on any issues which may give rise to external risks and internal risks. Upon identification of any risk, the management of the Group formulates action plan and assigns responsible person to execute the plan. In addition, the management is obliged to report to the Board on the progress and the result of all matters relating to the risks identified by the management.

CORPORATE GOVERNANCE REPORT

(B) Internal Audit

The Group has engaged independent contractor Shinewing Risk Services Limited which is responsible for, among others, conducting independent reviews of the adequacy and effectiveness of the Group's internal audit. In addition, the Risk Control Department of the Group has regularly reports its review results to the Board through the Audit Committee.

(C) Weaknesses in the Internal Control System that Result in Material Losses

During the financial year under review, no weaknesses in internal control that resulted in material losses were identified. The management will continue to take adequate measures to strengthen the control environment in which the Company operates.

The improvement of internal control system is an on-going process and the Board maintains an on-going commitment to strengthen the Group's control environment and processes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Each of the Directors understands and acknowledges his responsibility for the preparation of the consolidated financial statements of the Company which give a true and fair view of the state of affairs of the Company and the Group in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements pursuant to the Hong Kong Companies Ordinance.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as an on-going concern.

The auditors' statement about its reporting responsibilities on the financial statements is set out in the Independent Auditors' Report set out in pages 78 to 86 of this annual report.

COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKING FROM CONTROLLING SHAREHOLDERS

None of the Directors or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

CORPORATE GOVERNANCE REPORT

To protect the Group from potential competition, Mr. Chan Yuen Ming and Creative Sector Limited, being controlling shareholders of the Company (the "Controlling Shareholders"), have given an irrevocable noncompete undertaking (the "Non-compete Undertaking") in favour of the Company on 28 August 2009 pursuant to which each of the Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with the Company on a joint and several basis that each of the Controlling Shareholders shall, and shall procure that their respective associates (other than the Group) shall, among other matters, not to, directly or indirectly, invest in, be engaged in or participate in any business or activity which would or might compete with the business of the Group. Details of the Non-compete Undertaking have been set out in the sub-paragraph headed "Non-Compete Undertaking" of the paragraph headed "Continuing Connected Transactions" under the section headed "Our relationship with SkyComm Group and our Controlling Shareholders" of the prospectus of the Company dated 4 September 2009 in respect of its initial public offering.

The Company has received the annual confirmations from each of the Controlling Shareholders in respect of their respective compliance with the terms of the Non-compete Undertaking.

In order to properly manage any potential or actual conflict of interests between the Company and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertaking, the Company has adopted the following corporate governance measures:

a) the independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-compete Undertaking by the Controlling Shareholders;

b) the Company will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-compete Undertaking either through annual report or by way of announcement;

c) the Company will disclose in the corporate governance report of its annual report on how the terms of the Non-compete Undertaking have been complied with and enforced; and

d) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Non-compete Undertaking, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders of the Company, in particular, the minority shareholders.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

1. Procedures for shareholders to convene an extraordinary general meeting

The following procedures for shareholders ("Shareholders", each a "Shareholder") of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with Article 64 of the Articles of Association:

(1) One or more Shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice, to require an EGM to be called by the Directors for the transaction of any business specified in such requisition.

(2) Such requisition shall be made in writing to the Board or the company secretary of the Company and deposited at the Company's head office and principal place of business in Hong Kong at Room 1506-08, 15/F, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui, Kowloon, Hong Kong.

(3) The EGM shall be held within two months after the deposit of such requisition.

(4) If the Directors fail to proceed to convene such meeting within 21 days of the deposit of such requisition, 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 Directors shall be reimbursed to the Requisitionist(s) by the Company.

2. Procedures for raising enquiries

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, Union Registrars Limited, with contact details as follows:

Address: Suites 3301-04, 33/F.,
Two Chinachem Exchange Square, 338 King's Road, North Point,
Hong Kong
Email: enquiry@unionregistrars.com
Tel: (852) 2849 3399
Fax: (852) 2849 3319

Shareholders may raise enquiry in respect of the Company at the following designated contact, correspondence address, email address and enquiry hotlines of the Company:

Attention: Mr. Au Ki Lun (Company Secretary)
Address: Room 1506-08, 15/F, Greenfield Tower, Concordia Plaza, 1 Science Museum Road,
Tsimshatsui. Kowloon, Hong Kong
Email: oujilun@chinaallaccess.com
Tel: (852) 3579 2368
Fax: (852) 3579 2328

CORPORATE GOVERNANCE REPORT

3. *Procedures for putting forward proposals at Shareholders' meetings*

(i) Proposal for election of a person other than a Director as a Director:

Pursuant to Article 110 of the Articles of Association, a Shareholder wishes to propose a person other than a Director for election as a Director at a general meeting (the "Election Proposal") should lodge, at least seven clear days before the date of the general meeting, (i) a written notice setting out the Election Proposal; and (ii) a written notice signed by the person to be proposed of his willingness to be elected, at either (a) the head office and principal place of business of the Company in Hong Kong at Room 805, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui, Kowloon, Hong Kong, or (b) the branch share registrar and transfer office of the Company in Hong Kong, i.e. Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

Shareholders should follow the detailed procedures published on the Company's website in relation to making such Election Proposal.

(ii) Other Proposals:

If a Shareholder wishes to make other proposal (the "Proposal") at a general meeting, he may lodge a written request, duly signed, at the Company's the head office and principal place of business in Hong Kong at Room 1506-08, 15/F, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui. Kowloon, Hong Kong marked for the attention of the Company Secretary. The identity of the Shareholder and his request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a Shareholder, the Board will in its sole discretion decide whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting of the Company;

(2) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting of the Company;

(3) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution in an extraordinary general meeting of the Company.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA ALL ACCESS (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China All Access (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 87 to 210, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of assessment on intangible assets and goodwill Refer to notes 14 and 15 to the consolidated financial statements respectively. The Group's intangible assets of approximately RMB361,638,000 and goodwill of approximately RMB93,892,000 relating to, the business operation of solar electrical system with patents and the business operation of display and touch modules respectively. Management performed impairment assessment on intangible assets and goodwill and concluded that there is no impairment loss recognised in respect of intangible assets and goodwill. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and underlying cash flows, in particular future revenue growth and capital expenditure. Independent external valuations were obtained in order to support management's estimates.	Our audit procedures in relation to management's impairment assessment on intangible assets and goodwill include: • evaluating the independent valuers' competence, capabilities and objectivity; • assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • checking, on sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Disposal of subsidiaries Refer to note 39 to the consolidated financial statements. On 7 December 2018, the Group has completed the disposal of its entire equity interest in a wholly-owned subsidiary, which directly held 90% equity interest in a wholly-owned subsidiary of the Group, to an independent third party at cash consideration of RMB1,750,000,000, which is receivable in six instalments over the course of 30 months. Upon the completion, the Group has recognised a loss on disposal of subsidiaries of approximately RMB228,653,000, consideration receivables for disposal of subsidiaries of approximately RMB1,492,618,000, which has been discounted to present value, and retained 10% equity interest of the investment accounted for as financial assets at fair value through profit or loss, which has a fair value of approximately RMB1,760,000 upon initial recognition.	Our audit procedures in relation to the disposal of subsidiaries include: • inquiring with the management and inspecting the disposal agreement to obtain an understanding of the disposal arrangement; • checking whether completion criteria of the transaction were met and assessing whether the disposal has been properly accounted for in accordance with the requirements of relevant HKFRSs; • checking the computation of the results and cash flows included in the consolidated financial statements and determining whether they appropriately represent the amounts of the subsidiaries up to the effective date of disposal; • checking the computation of loss on disposal by comparing the consideration with the net assets disposed of, interests retained and reserve released upon the disposal; • assessing the competency, capability and objectivity of the independent external valuer by considering its qualifications, relevant experience and relationship with the Group;

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter *(Continued)*

Disposal of subsidiaries *(Continued)*

We focused on the completion criteria of the transaction, accuracy of the calculation of the loss on disposal, whether the consolidated financial statements properly include the result and cash flows of the subsidiaries up to the effective date of disposal and appropriateness of the accounting and disclosure of the disposal in the consolidated financial statements.

How our audit addressed the key audit matter *(Continued)*

- assessing the reasonableness of the input data used for computing the effective interest rate in arriving the fair value of consideration receivables for disposal of subsidiaries;

- assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts;

- checking, on sampling basis, the accuracy and relevance of the input data used; and

- evaluating the appropriateness of the disclosure in relation to the disposal in accordance with the requirements under HKFRSs.

We found the disclosures and amounts in relation to the disposal of subsidiaries were adequate and were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit losses ("ECL") recognised in respect of trade and other receivables, discounted bills receivable and bills receivable	
Refer to notes 3, 20, 23, 24 and 46 to the consolidated financial statements respectively. At 31 December 2018, the Group had trade and other receivables, discounted bills receivable and bills receivable, net of allowance for credit losses, of approximately RMB3,461,453,000, RMB169,607,000 and RMB17,278,000 respectively. The use of ECL model involves significant estimates and judgements, including determination of whether there is significant increase in credit risk since initial recognition, use of models and assumptions in determination of probability of default and loss given default, incorporation of forward-looking information.	Our audit procedures in relation to ECL recognised in respect of trade and other receivables, bill receivables and discounted bills receivable include: • evaluating methodology, models and assumptions used by management in determining ECL; • examining, on sampling basis, the completeness and accuracy of the data that has been used to arrive the ECL; and • checking, on sample basis, the accuracy and completeness of the aging analysis; We found management's assessments for ECL recognised in respect of trade and other receivables, discounted bills receivable and bills receivable are supported by available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

Revenue recognition from provision of products and services in information and communication technology ("ICT")

Refer to notes 3 and 5 to the consolidated financial statements respectively.

We identified revenue recognised from provision of products and services in ICT as a key audit matter as the revenue recognised is quantitatively significant to the consolidated statement of profit or loss and material revenue transactions may occur close to the end of the reporting period which require management's effort in verifying appropriate cut-off for goods transferred and/or services rendered.

Revenue from provision of products and services in ICT is recognised when the products are delivered and title was passed and/or the services are rendered. The accounting policy for revenue recognition is disclosed in note 3 to the consolidated financial statements. The Group recognised revenue of approximately RMB1,701,106,000 from provision of products and services in ICT for the year ended 31 December 2018, which is disclosed in the consolidated statement of profit or loss and note 5 to the consolidated financial statements.

How our audit addressed the key audit matter

Our audit procedures in relation to revenue recognition from provision of products and services in ICT include:

- obtaining an understanding of the revenue recognition process regarding provision of products and services in ICT;
- performing test of details, on sampling basis, by comparing the details and amounts of the transactions selected with the details and amounts shown on the underlying documentation including the journal vouchers and sales invoices;
- checking the terms set out in the relevant agreements; and assessing whether the, (i) significant risks and rewards of ownership of the products (revenue is substantially recognised from sales of goods); and/or (ii) services, of the revenue recognised have been transferred to the customers/are rendered respectively by reviewing the relevant documents, including the relevant notices such as delivery notices and acknowledgement to receipts, on sampling basis; and
- testing the recognition of material sales transactions close to the end of the reporting period to assess whether those sales transactions were recognised in appropriate accounting period in accordance with the Group's revenue recognition policy.

We found that the amounts and timing of the revenue recognition from provision of products and services in ICT were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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 AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion. We report our opinion 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.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 director on the audit resulting in this independent auditors' report is Yu Chi Fat.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Yu Chi Fat
Practicing Certificate Number: P05467

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Notes	2018 RMB'000	2017 RMB'000
CONTINUING OPERATIONS			
Revenue	5	1,702,670	2,516,498
Cost of sales		(1,594,253)	(2,096,602)
Gross profit		108,417	419,896
Other revenue	7	68,808	82,706
Other net (loss)/gain	7	(15,923)	9,438
Distribution costs		(6,512)	(8,904)
Administrative expenses		(246,384)	(197,111)
Research and development expenses		(9,415)	(9,256)
(Loss)/profit from operations		(101,009)	296,769
Finance income	8(a)	29,295	29,064
Finance costs	8(b)	(218,853)	(194,511)
Gain on disposal of subsidiaries		—	6,971
Share of results of associates		709	1,809
(Loss)/profit before taxation	8	(289,858)	140,102
Income tax expense	9	(6,833)	(12,322)
(Loss)/profit for the year from continuing operations		(296,691)	127,780
DISCONTINUED OPERATION	10		
(Loss)/profit for the year from discontinued operation		(381,416)	104,427
(Loss)/profit for the year		(678,107)	232,207

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Notes	2018 RMB'000	2017 RMB'000
(Loss)/profit for the year attributable to:			
Owners of the Company		**(678,107)**	228,781
Non-controlling interests		**—**	3,426
		(678,107)	232,207
(Loss)/earnings per share	12		
From continuing and discontinued operations			
Basic and diluted (RMB)		**(0.349)**	0.117
From continuing operations			
Basic and diluted (RMB)		**(0.153)**	0.064

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi)

	2018 RMB'000	2017 RMB'000
(Loss)/profit for the year	**(678,107)**	232,207
Other comprehensive loss for the year (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements	**(8,048)**	(30,971)
Other comprehensive loss for the year	**(8,048)**	(30,971)
Total comprehensive (loss)/income for the year	**(686,155)**	201,236
Total comprehensive (loss)/income for the year attributable to:		
Owners of the Company	**(686,155)**	197,046
Non-controlling interests	**—**	4,190
Total comprehensive (loss)/income for the year	**(686,155)**	201,236

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in Renminbi)

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	13	170,814	92,242
Intangible assets	14	361,638	381,386
Goodwill	15	93,892	93,892
Interests in associates	17	1,709	—
Investment property	18	—	27,668
Other receivables	20	790,345	—
Deposit paid for acquisition of property, plant and equipment		135,580	—
Deferred tax assets	33	800	—
		1,554,778	595,188
Current assets			
Inventories	19	234,796	156,235
Trade and other receivables	20	2,671,108	3,974,103
Prepayments	21	1,029,558	442,829
Loans receivable	22	—	125,385
Discounted bills receivable	23	169,607	58,100
Bills receivable	24	17,278	63,284
Financial assets at fair value through profit or loss	25	5,398	—
Available-for-sale financial assets	26	—	10,000
Restricted cash	27	154,729	325,765
Bank deposits with original maturities over three months		—	1,040,985
Cash and cash equivalents	28	70,731	204,420
		4,353,205	6,401,106
Current liabilities			
Trade and other payables	29	919,997	870,629
Contract liabilities	30	67,655	—
Deferred income		3,630	7,748
Borrowings	31	1,192,251	860,515
Convertible bonds	32	—	964,252
Bank advances on discounted bills receivables	23	170,321	58,100
Income tax payable		193,995	72,055
		2,547,849	2,833,299
Net current assets		1,805,356	3,567,807
Total assets less current liabilities		3,360,134	4,162,995

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in Renminbi)

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Borrowings	31	200,000	157,977
Deferred income		8,152	7,105
Deferred tax liabilities	33	6,648	7,398
		214,800	172,480
NET ASSETS		3,145,334	3,990,515
CAPITAL AND RESERVES			
Share capital	36	16,017	16,993
Reserves		3,129,317	3,973,522
TOTAL EQUITY		3,145,334	3,990,515

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2019 and signed on behalf by:

Mr. Chan Yuen Ming
Chairman and Executive Director

Mr. Shao Kwok Keung
Chief Executive Officer and Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in Renminbi)

		Attributable to owners of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Statutory general reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		16,267	1,562,964	104	164,155	618,900	15,673	90,073	(41,178)	1,458,368	3,885,326	(9,887)	3,875,439
Profit for the year		–	–	–	–	–	–	–	–	228,781	228,781	3,426	232,207
Other comprehensive (loss)/income		–	–	–	–	–	–	–	(31,735)	–	(31,735)	764	(30,971)
Total comprehensive (loss)/income		–	–	–	–	–	–	–	(31,735)	228,781	197,046	4,190	201,236
Issuance of consideration shares		726	188,412	–	–	(189,138)	–	–	–	–	–	–	–
Share-based payment expenses		–	–	–	–	–	11,540	–	–	–	11,540	–	11,540
Lapse of share options		–	–	–	–	–	(2,710)	–	–	2,710	–	–	–
Appropriation of reverse		–	–	–	–	–	–	5,137	–	(5,137)	–	–	–
Acquisition of additional interests in subsidiaries	37	–	–	–	–	–	–	–	–	(61,178)	(61,178)	6,391	(54,787)
Disposal of a subsidiary	39	–	–	–	–	–	–	–	–	–	–	(694)	(694)
Dividend approved and paid in respect of prior year	36	–	(42,219)	–	–	–	–	–	–	–	(42,219)	–	(42,219)
Balance at 31 December 2017 and at 1 January 2018		**16,993**	**1,709,157**	**104**	**164,155**	**429,762**	**24,503**	**95,210**	**(72,913)**	**1,623,544**	**3,990,515**	**–**	**3,990,515**
Loss for the year		–	–	–	–	–	–	–	–	(678,107)	(678,107)	–	(678,107)
Other comprehensive loss		–	–	–	–	–	–	–	(8,048)	–	(8,048)	–	(8,048)
Total comprehensive loss		–	–	–	–	–	–	–	(8,048)	(678,107)	(686,155)	–	(686,155)
Cancellation of shares repurchased													
– par value paid		(976)	–	–	–	–	–	–	–	–	(976)	–	(976)
– premium paid		–	(73,845)	–	–	–	–	–	–	–	(73,845)	–	(73,845)
Redemption of convertible bonds		–	–	–	–	(208,732)	–	–	–	208,732	–	–	–
Share-based payment expenses		–	–	–	–	–	3,783	–	–	–	3,783	–	3,783
Lapse of share options		–	–	–	–	–	(8,357)	–	–	8,357	–	–	–
Disposals of subsidiaries	39	–	–	–	84,142	14,984	–	(81,329)	–	(17,797)	–	–	–
Release of property revaluation reserve upon disposal of investment property		–	–	–	–	(9,401)	–	–	–	9,401	–	–	–
Appropriation of reverse		–	–	–	–	–	–	10,565	–	(10,565)	–	–	–
Dividend approved and payable in respect of prior year	36	–	–	–	–	–	–	–	–	(87,988)	(87,988)	–	(87,988)
Balance at 31 December 2018		**16,017**	**1,635,312**	**104**	**248,297**	**226,613**	**19,929**	**24,446**	**(80,961)**	**1,055,577**	**3,145,334**	**–**	**3,145,334**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations	28	400,670	1,111,581
Tax paid:			
— Hong Kong Profits Tax paid		(2,879)	(5,514)
— PRC Enterprise Income Tax paid		(16,632)	(178,280)
Net cash generated from operating activities		381,159	927,787
Investing activities			
Purchase of property, plant and equipment	13	(99,086)	(34,038)
Proceeds from disposal of property, plant and equipment		31,087	1,686
Prepayment for purchase of property, plant and equipment		(135,580)	—
Proceeds from disposal of investment property		27,168	—
Net cash (outflow)/inflow from disposal of subsidiaries	39	(247)	10,998
Net cash inflow from acquisition of subsidiaries	40	—	55,216
Addition to structured deposits, net		—	(235,000)
Advance to entrusted loans		280,000	(280,000)
Repayment from entrusted loans		(50,000)	200,000
Withdrawal of bank deposits with original maturities over three months, net		80,985	24,387
Investment in available-for-sale financial assets		—	(10,000)
Investment in associates		(1,000)	—
Interest received from bank deposits		18,526	32,715
Interest received from structured deposits		11,977	17,538
Interest received from entrusted loans and other receivables		35,004	25,987
Net cash generated/(used in) from investing activities		198,834	(190,511)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Notes	2018 RMB'000	2017 RMB'000
Financing activities			
Proceeds from borrowings		**50,000**	280,178
Repayment of borrowings		**(559,367)**	(679,649)
Interest paid		**(52,941)**	(105,193)
Acquisition of additional interests in subsidiaries		**—**	(49,347)
Redemption of convertible bonds		**(100,080)**	—
Repurchase of shares		**(74,821)**	—
Dividends paid to owners of the Company	36	**—**	(42,219)
Net cash used in financing activities		**(737,209)**	(596,230)
Net (decrease)/increase in cash and cash equivalents		**(157,216)**	141,046
Cash and cash equivalents at the beginning of the reporting period	28	**204,420**	48,573
Effect of foreign exchange rate changes		**23,527**	14,801
Cash and cash equivalents at the end of the reporting period	28	**70,731**	204,420

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

China All Access (Holdings) Limited (the "Company") was incorporated in the Cayman Islands on 4 December 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Cayman Companies Law"). The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 September 2009.

At 31 December 2018, the directors of the Company consider the immediate parent and ultimate holding company of the Company to be Creative Sector Limited, a company incorporated in the British Virgin Islands (the "BVI") with limited liability.

The functional currency of the Company is Hong Kong dollar ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB") because the principal activities of the Company's subsidiaries (collectively with the Company referred to as the "Group") are carried out in the People's Republic of China (the "PRC"), and all values are rounded to the nearest thousand (RMB'000) unless otherwise indicated.

The principal activity of the Company is investment holding and details principal activities of the Company's subsidiaries are set out in note 41 to the consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1 January 2018. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

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

Except as described below, the application of other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRS. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrate the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	HKAS 39 carrying amounts at 31 December 2017 RMB'000	Reclassification RMB'000	HKFRS 9 carrying amounts at 1 January 2018 RMB'000
Financial assets at FVTPL			
Unlisted debt security *(note a)*	—	10,000	10,000
Financial assets classified as AFS financial assets under HKAS 39			
Unlisted debt security *(note a)*	10,000	(10,000)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of HKFRS 9 *(Continued)*

Notes:

(a) Unlisted debt security

The unlisted debt security with the carrying amount of approximately RMB10,000,000 were reclassified from available-for-sale ("AFS") financial assets to financial assets at fair value through profit or loss ("FVTPL"). This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding.

There was no material impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, the remaining balances are grouped based on past due analysis. The Group has therefore estimated the expected loss rates for trade receivables on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including other receivables, loan receivable, discounted bills receivable, bills receivable, restricted cash, bank deposits with original maturities over three months and bank balances are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

(c) Financial liabilities

There is no impact on the Group's accounting for financial liabilities. The Group's financial liabilities previously carried at amortised costs remained to be measured at amortised costs under HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

As a result of the changes in the Group's accounting policies, as explained below, except for the reclassification of the contract liabilities from receipt in advance of approximately RMB90,388,000 at initial application, HKFRS 15 was generally applied without restating any other comparative information. The application of HKFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information except that, the Group has applied the following accounting policies on revenues with effect from 1 January 2018.

HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon application, this requirement under HKFRS 15 resulted in immaterial impact to the consolidated financial statements as the timing of revenue recognition on sales of electronic components and system operations management services is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Provision of system operation management, application upgrade and system maintenance services
- Sales of electronic components

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 3.

The initial application of HKFRS 15 does not have a material impact on retained earnings at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material[3]
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement[1]
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 3 (Amendments)	Definition of a Business[2]
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation[1]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK (IFRIC) — Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

Except for the new and revised HKFRSs mentioned below, the directors anticipate that the application of all other new and revised HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

At 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB17,131,000 as disclosed in note 42(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Upon application of HKFRS 16, the Group will apply the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of HKFRS 9. In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the disclosure requirements of the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for investment property, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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.

For financial instruments and investment property which are transferred at fair value and a valuation technique that are unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the result of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill. Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the statement of profit or loss if (i) they arise within 12 months of the acquisition date and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior period amounts are restated.

All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Interests in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(f) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recognised at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Associates *(Continued)*

The Group assesses whether there is an objective evidence that the interest in an associate maybe impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(g) Goodwill

Goodwill arising on acquisition of business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any, and is presented separately in consolidated statement of the financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the CGU may be impaired. For goodwill arising on an acquisition during the reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of the reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of the gain or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

The cost of an asset 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 the 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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Asset held under a finance lease is depreciated over its expected useful lives on the same basis as owned asset. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, asset is depreciated over the shorter of the lease term and their useful lives.

Depreciation is recognised so as to write-off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

—	Buildings held for own use	Over the lease term or 50 years
—	Leasehold improvements	Over the lease term or 10 years
—	Electronic equipment	3-5 years
—	Office equipment	5 years
—	Computer software	5 years
—	Motor vehicles	5-10 years
—	Machinery equipment	5-10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets

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.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses, if any. Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses, if any. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Technology know-how	3-5 years
—	Customer relationship	9 years
—	Backlog	1-2 years
—	License agreement (including patents)	3-12 years
—	Trademark	5 years

The estimated useful lives and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Intangible assets that allocate the amortisation using unit of production method are on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset. The method is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. The future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Intangible assets (Continued)

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset.

(j) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of tangible and intangible assets other than goodwill *(Continued)*

Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 *Interim Financial Reporting*. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities stated at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the reporting period to which the interim period relates.

(k) Investment property

Investment property is property held to earn rental. On initial recognition, investment property are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property is included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) *Financial instruments* *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) *(Continued)*

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) *(Continued)*

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other net (loss)/gain" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, deposit paid for acquisition of property, plant and equipment, loan receivable, discounted bills receivable, bills receivable, restricted cash and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and partial other receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on age group by due date.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of reporting period. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(i) Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(v) Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets as at FVTPL.

AFS debt investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost less any identified impairment losses at the end of each reporting period.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, loans receivable, discounted bills receivable, factored trade receivables, bills receivable, restricted cash, bank deposits with original maturities over three months and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss, if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as financial liabilities or equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables (exclude receipt in advance), borrowings, convertible bonds and bank advances on discounted bills receivable) are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payment to reimburse the holder for a loss it incurs because debtor fails to make payment when due in accordance with the terms of a debt instruments.

Financial guarantee contracts issued by the Company are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of obligation under the contract, as determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities *(continued)*

Convertible bonds contain equity component

The component parts of the convertible bonds are classified separately as financial liability and equity (recognised as 'capital reserve') in accordance with the substance of the contractual arrangements and the definition of a financial liability and an equity instruments. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effect, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at maturity date of the convertible bonds, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity component in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand which are not restricted as to use, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations

Payments to Mandatory Provident Fund Scheme (the "MPF Scheme") and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group operates a MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employers' contributions subject to a cap of monthly relevant income of HK$30,000. The Group's contributions to the scheme are expensed as incurred and vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The employees employed by the Group's subsidiaries in PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiaries are required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the government of the PRC is to make the specified contributions under the schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Employee benefits *(Continued)*

Share-based payments

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in share-based compensation reserve.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to retained earnings.

(p) Taxation

Income tax expense for the year comprises current tax and movements in deferred tax assets and liabilities.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from '(loss)/profit before taxation' as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Taxation *(Continued)*

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with interests in subsidiaries and interests in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amounts 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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) *Taxation* *(Continued)*

Deferred tax *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss.

(q) *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(r) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Contingent liabilities and contingent assets *(Continued)*

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. When inflow is virtually certain, an asset is recognised.

(s) Revenue from contract with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue from contract with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(Continued)*

Performance obligations for contracts with customers

Sales of electronic components

The Group sell electronic components directly to customers.

Revenue from sales of electronic components is recognised at a point in time when control of the goods has transferred, being when the goods have been delivered to the specify location. The normal credit term is up to 18 months upon delivery.

Provision of system operations managements services

The Group provides system operations managements services which are recognised at a point of time when related services are rendered.

(t) Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received and receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value added tax or other sales taxes, returns and allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Integrated system revenue in respect of a turnkey project is recognised upon completion of each of the separately specified stages of the project provided that the customer has issued an inspection certificate to indicate its acceptance of the services and works provided.

Revenue from system operation management, application upgrade and system maintenance service is recognised once the relevant service has been rendered to customers.

Rental income from operating lease is recognised on a straight-line basis over the lease term.

Interest income is recognised as it accrues using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Asset held under a finance lease is initially recognised as asset of the Group at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Translation of foreign currencies

Items included in the financial statements of group entity are measured in the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the date of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control of the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities 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); or

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or to be influenced by, that person in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(aa) Discontinued operation

A discontinued operation is a component of the Group's business, the operation and cash flow of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of profit or loss, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

4. ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

4. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Critical accounting judgement

The followings are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Fair value of investment property

The Group's investment property is stated at fair value based on the valuation performed by an independent firm of surveyors. In determining the fair value, the surveyors have based on methods of valuation which involve certain estimates. In relying on the valuation report, the management has exercised its judgement and is satisfied that the methods of valuation are reflective of the current market conditions. Should there be changes in assumptions due to change in market conditions, the fair value of the investment property will change in future.

(ii) Deferred tax on investment property

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment property that is measured using the fair value model, the management have reviewed the Group's investment property portfolio and concluded that the Group's investment property is not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Therefore, in measuring the Group's deferred tax on investment property, the management have determined that the presumption that the carrying amount of investment property measured using the fair value model is recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred tax on changes in fair value of investment property as the Group are not subject to any income taxes on disposal of investment property.

Key sources of estimation uncertainty

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

(i) Impairment of property, plant and equipment

The Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions applied in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group's results in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

4. ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(ii) Estimated impairment of financial assets at amortised cost

The loss allowances for financial assets are based on assumption about risk of default and expected loss rates. The Group use judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

(iii) Net realisable value of inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's results in future years.

(iv) Impairment of intangible assets and goodwill

Determining whether intangible assets and goodwill is impaired requires an estimation of the value in use of the CGU to which they have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Any change in the estimates would increase or decrease in the provision of impairment loss and affect the Group's results in future years.

(v) Income tax

The Group is subject to Hong Kong Profits Tax and PRC Enterprise Income Tax. Judgement is required in determining the provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Recognition of deferred tax depends on the management's expectation of future taxable profit that will be available. The outcome of their actual utilisation may be different.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

5. REVENUE

For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018	
	ICT RMB'000	New Energy RMB'000
Continuing operations		
Type of goods and services		
Sales of electronic components		
— Display and touch modules	**1,691,293**	—
— Casings and keyboard	**9,162**	—
	1,700,455	—
System operations managements services income	**651**	—
Total	**1,701,106**	—
Continuing operations		
Timing of revenue recognition		
— At a point in time	**1,701,106**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

5. REVENUE *(Continued)*

For the year ended 31 December 2018 *(Continued)*

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	2018 RMB'000
Continuing operations	
Sales of electronic components	**1,700,455**
System operations managements services income	**651**
Revenue from contracts with customers	**1,701,106**
Loan interest income	**1,564**
Total revenue	**1,702,670**

Transaction price allocated to the remaining performance obligation for contracts with customers

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its revenue such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts as all contract works have an original expected duration of one year or less.

For the year ended 31 December 2017

	2017 RMB'000
Continuing operations	
ICT	2,204,007
New Energy	177,346
Investment activities	135,145
	2,516,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

6. SEGMENT REPORTING

The Group manages its businesses by divisions which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

— ICT: including but not limited to the services provided in the field of unified communications and integration of telecommunications, computers as well as necessary enterprise software, middleware, storage, and audio-visual systems, which enable users to access, store, transmit, and manipulate information. During the year, the Group has engaged in (1) system installation, testing, software development, provision of application services for satellite and wireless communication, (2) distribution of satellite receivers and equipment, and (3) research and development, manufacture and distribution of wireless terminals and equipment, including display modules, casings and keyboards.

— New Energy: including but not limited to development, investment, operation and management of solar power plants. During the year, the Group has engaged in research and development, installation and application of devices for increasing the luminous flux per unit area for photovoltaic plants.

— Investment activities: revenue generated from interest earned from provision of facilitating capital to supply steam and investment returns generated from direct investment and high yield treasury products.

河北諾特通信技術有限公司 (Hebei Noter Communication Technology Co., Limited*) ("Hebei Noter") and its subsidiary ("Hebei Noter Group") constitute a major line of business in development and provision of communication equipment, application services system operating managements, application upgrade and system maintenance.

Upon disposal of Hebei Noter Group, the segment information reported below does not include any amounts for the discontinued operations, which are disclosed for more detail in note 10.

* *for identification purposes only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

6. SEGMENT REPORTING *(Continued)*

(a) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

All assets and liabilities are allocated to the reportable segments with the exception of other corporate assets and liabilities, certain communication equipment which is jointly used by all reportable segments, convertible bonds, income tax payable and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to profit earned by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "segment operating (loss)/profit". Segment operating (loss)/profit includes the gross profit generated by the segment, certain distribution costs, administrative expenses and finance costs directly attributable to the segment. Items that are not specifically attributable to individual segments, such as partial other revenue, partial other net (loss)/gain, other corporate administrative expenses, finance income, partial finance costs, gain on disposal of a subsidiary and share of results of associates, are excluded from segment operating (loss)/profit.

In addition to receiving segment information concerning segment operating (loss)/profit, management is provided with segment information concerning revenue, assets and liabilities used by the segments in their operations.

	ICT		New Energy		Investment activities		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Reportable segment revenue *(Note)*	**1,701,106**	2,204,007	**–**	177,346	**1,564**	135,145	**1,702,670**	2,516,498
Segment operating (loss)/profit	**(5,915)**	138,291	**(48,962)**	59,162	**1,610**	135,145	**(53,267)**	332,598
Other revenue							**4,591**	4,348
Other net (loss)/gain							**(4,009)**	5,378
Finance income							**29,295**	29,064
Finance costs							**(207,733)**	(154,588)
Gain on disposal of subsidiaries							**–**	6,971
Share of results of associates							**709**	1,809
Other corporate expenses							**(59,444)**	(85,478)
(Loss)/profit before taxation							**(289,858)**	140,102

Note: Segment revenue reported above represents revenue generated from external customers. There were no inter-segment revenue in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

6. SEGMENT REPORTING *(Continued)*

(a) *Segment results, assets and liabilities* *(Continued)*

	2018 RMB'000	2017 RMB'000
Assets		
Reporting segment assets:		
— ICT	**3,879,988**	2,660,242
— New Energy	**532,829**	492,776
— Investment activities	**3,983**	818,545
Reportable segment assets	**4,416,800**	3,971,563
Assets relating to discontinued operation	**—**	2,762,383
Unallocated assets	**1,491,183**	262,348
Total assets	**5,907,983**	6,996,294
Liabilities		
Reporting segment liabilities:		
— ICT	**1,017,810**	1,350,341
— New Energy	**50,697**	37,966
— Investment activities	**—**	—
Reportable segment liabilities	**1,068,507**	1,388,307
Liabilities relating to discontinued operation	**—**	103,897
Unallocated liabilities	**1,694,142**	1,513,575
Total liabilities	**2,762,649**	3,005,779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

6. SEGMENT REPORTING *(Continued)*

(b) *Other segment information*

Amounts included in the measure of segment profit or loss or segment assets:

	ICT		New Energy		Investment activities		Unallocated		Total	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Depreciation and amortisation	26,954	32,425	32,145	33,243	–	–	2,836	1,309	61,935	66,977
Reversal of impairment loss recognised in respect of trade receivables	(9,044)	(56,405)	–	–	–	–	–	–	(9,044)	(56,405)
Impairment loss recognised in respect of trade and other receivables	69,973	8,736	14,667	–	–	–	11,412	–	96,052	8,736
Impairment loss recognised in respect of bills receivables	72	–	–	–	–	–	–	–	72	–
Impairment loss recognised in respect of discounted bills receivables	714	–	–	–	–	–	–	–	714	–
Write-down of obsolete inventories	10,543	7,995	–	–	–	–	–	–	10,543	7,995
Finance costs	11,120	39,923	–	–	–	–	207,733	154,588	218,853	194,511
Investment in associates	–	–	–	–	–	–	1,000	–	1,000	–
Addition to non-current assets (Note)	63,985	11,192	136,126	5	–	1,026	93,612	–	293,723	12,223

Note: Addition to non-current assets exclude additions of financial instrument and deferred tax assets.

Information about major customers

Revenue from customers amounting to 10% or more of the Group's revenue is set out below.

	2018 RMB'000	2017 RMB'000
Customer A[1]	N/A[3]	636,869
Customer B[2]	—	274,378
Customer C[1]	554,237	N/A[3]
Customer D[1]	361,776	N/A[3]

1 Revenue generated from Customer A, Customer C and Customer D are attributable to ICT.

2 Revenue generated from Customer B is attributable to ICT and New Energy.

3 The corresponding revenue did not contribute over 10% of the total revenue from continuing operations.

Except disclosed above, no other customers contributed 10% or more to the Group's total revenue from continuing operations for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

6. SEGMENT REPORTING *(Continued)*

(c) Geographical segments

Substantially all of the Group's activities are based in the PRC and majority of the Group's revenue and operational assets are derived from and located in the PRC for both years.

7. OTHER REVENUE AND NET (LOSS)/GAIN

	2018 RMB'000	2017 RMB'000
Continuing operations		
Other revenue		
Government subsidy	**24,504**	17,802
Reversal of impairment loss recognised in respect of trade receivables	**9,044**	56,405
Penalty income	**30,030**	403
Waiver of loan interest payables	**—**	3,911
Others	**5,230**	4,185
	68,808	82,706
Continuing operations		
Other net (loss)/gain		
Gain/(loss) on disposal of property, plant and equipment	**5,387**	(1,166)
Exchange loss, net	**(15,458)**	(1,383)
Realised loss on fair value change of financial assets at fair value through profit or loss	**(1,825)**	—
Unrealised gain on fair value change of financial assets at fair value through profit or loss	**37**	—
Gain on remeasurement of pre-existing interest in an associate to acquisition date fair value	**—**	8,391
(Loss)/gain on fair value change of investment property	**(4,029)**	4,585
Others	**(35)**	(989)
	(15,923)	9,438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

8. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) *Finance income*

	2018 RMB'000	2017 RMB'000
Continuing operations		
Interest income from entrusted loans	**11,977**	25,835
Interest income from bank deposits	**1,353**	3,229
Interest income from structured deposits and other receivables	**15,965**	—
	29,295	29,064

(b) *Finance costs*

	2018 RMB'000	2017 RMB'000
Continuing operations		
Interest on borrowings	**173,914**	93,386
Interest on discounted bills receivable	**7,466**	3,774
Imputed interests on convertible bonds *(note 32)*	**36,304**	80,741
Interest on factored trade receivables	**—**	12,905
Bank charges	**1,169**	3,705
	218,853	194,511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

8. (LOSS)/PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2018 RMB'000	2017 RMB'000
Continuing operations		
Cost of inventories sold	1,552,057	2,044,533
Depreciation of property, plant and equipment	24,872	15,766
Amortisation of intangible assets	37,063	50,254
Amortisation of prepaid land lease	—	957
Reversal of impairment loss recognised in respect of trade receivables	(9,044)	(56,405)
Write-down of obsolete inventories (included in cost of sales)	10,543	7,995
Impairment loss recognised in respect of trade and other receivables	96,052	8,736
Impairment loss recognised in respect of bills receivables	72	—
Impairment loss recognised in respect of discounted bills receivables	714	—
Auditors' remuneration:		
— Audit service	5,738	5,346
— Non-audit services	1,735	1,277
	7,473	6,623
Operating lease charges in respect of leased premises	19,603	20,324
Gross rental income from investment property	(75)	(124)
Less: Direct operating expenses from investment property that generated rental income during the year	62	93
Direct operating expenses from investment property that did not generate rental income during the year	17	59
	4	28

(d) Staff costs (excluding directors' remuneration)

	2018 RMB'000	2017 RMB'000
Continuing operations		
Salaries, wages and other benefits	89,998	104,856
Share-based payment expenses	3,067	8,150
Retirement benefit scheme contributions	4,399	8,390
	97,464	121,396

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

9. INCOME TAX EXPENSE

Income tax expense in the consolidated statement of profit or loss represents:

	2018 RMB'000	2017 RMB'000
Continuing operations		
Current tax — Hong Kong Profits Tax		
Provision for the year	—	15,770
Over-provision in prior years	(9,824)	(13,137)
	(9,824)	2,633
Current tax — PRC Enterprise Income Tax		
Provision for the year	18,203	14,349
Under-provision/(over-provision) in prior years	4	(2,806)
	18,207	11,543
Deferred tax		
Credit for the year	(1,550)	(1,854)
	6,833	12,322

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years, except for 北京全通諾特通信技術有限公司 (Beijing All Access Noter Communication Technology Co., Limited*) ("Beijing All Access"), 深圳市立德通訊器材有限公司 (Shenzhen Lead Communications Limited*) ("Shenzhen Lead") and 深圳市康銓機電有限公司 (Shenzhen Kangquan Mechanical and Electrical Co., Limited*) ("Shenzhen Kangquan") which qualified as High and New Technology Enterprises and entitled to the preferential tax rate of 15%.

* *for identification purposes only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

9. INCOME TAX EXPENSE *(Continued)*

Reconciliation between income tax expense and (loss)/profit before taxation:

	2018 RMB'000	2017 RMB'000
(Loss)/profit before taxation	**(289,858)**	140,102
Tax calculated at tax rates applicable to the jurisdictions concerned	**(89,172)**	37,862
Tax effect of tax concession	**(10,969)**	(15,033)
Tax effect of non-taxable income	**(5,062)**	(17,578)
Tax effect of non-deductible expenses	**120,039**	27,107
Tax effect of estimated tax loses not recognised	**2,737**	8,400
Tax effect of utilisation of estimated tax losses not recognised	**(920)**	(12,493)
Over-provision in prior years	**(9,820)**	(15,943)
	6,833	12,322

10. DISCONTINUED OPERATION

On 3 June 2018, the Group entered into a conditional sale and purchase agreement to dispose the entire equity interest in Hebei Noter, an indirect wholly-owned subsidiary of the Company, and its subsidiary which engaged in development and provision of communication equipment, application services system operating management, application upgrade and system maintenance, at total consideration of RMB1,750,000,000. The disposal of Hebei Noter Group was consistent with the Group's long-term policy to focus its activities on the Group's other business. The disposal was completed on 7 December 2018, on which date the control of Hebei Noter Group ceased.

(Loss)/profit for the year from discontinued operation is analysed as follows:

	2018 RMB'000	2017 RMB'000
(Loss)/profit for the year from Hebei Noter Group	**(152,763)**	104,427
Loss on disposal of Hebei Noter Group	**(228,653)**	—
(Loss)/profit for year from discontinued operation attributable to owners of the Company	**(381,416)**	104,427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

10. DISCONTINUED OPERATION *(Continued)*

The result of the discontinued operation for the year, which have been included in the consolidated statement of profit or loss, were as follows:

	2018 RMB'000	2017 RMB'000
Revenue	10,323	171,897
Cost of sales	(10,784)	(127,590)
Gross (loss)/profit	(461)	44,307
Other revenue	24,615	35,474
Other net (loss)/gain	(39)	3,237
Distribution expenses	(2,424)	(3,871)
Administrative expenses	(46,484)	(11,737)
Research and development expenses	(6,572)	(3,849)
(Loss)/profit from operation	(31,365)	63,561
Finance income	38,390	53,034
Profit before tax	7,025	116,595
Income tax expense	(159,788)	(12,168)
	(152,763)	104,427
Loss on disposal of discontinued operation	(228,653)	—
(Loss)/profit for the year from discontinued operation attributable to owners of the Company	(381,416)	104,427

	2018	2017
(Loss)/earnings per share		
Basic and diluted (RMB)	(0.197)	0.053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

10. DISCONTINUED OPERATION *(Continued)*

(Loss)/profit for the year from discontinued operation has been arrived at after charging:

	2018 RMB'000	2017 RMB'000
Discontinued operation		
Cost of inventories sold	**5,768**	115,437
Depreciation of property, plant and equipment	**3,099**	560
Exchange (loss)/gain, net	**(39)**	3,413
Impairment loss recognised in respect of trade and other receivables	**35,620**	—
Loss on disposal of property, plant and equipment	**—**	3
Operating lease rental in respect of leased premises	**1,162**	1,291
Staff costs (excluding directors' remuneration)	**16,368**	15,380

Cash flows of the discontinued operation for the year were as follows:

	2018 RMB'000	2017 RMB'000
Net cash (used in)/generated from operating activities	**(177,672)**	224,994
Net cash generated from/(used in) investing activities	**112,038**	(176,159)
Net cash (outflow)/inflow	**(65,634)**	48,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration disclosed pursuant to applicable Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinances, is as follows:

	For the year ended 31 December 2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based payment expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors					
Chan Yuen Ming	100	2,970	—	15	3,085
Shao Kwok Keung	100	2,160	514	15	2,789
Xiu Zhi Bao (resigned on 12 October 2018)	75	457	202	28	762
Yan Wei (retired on 13 June 2018)	50	91	—	5	146
Tian Zheng (retired on 13 June 2018)	50	91	—	5	146
Non-executive director					
Bao Tiejun (appointed on 15 February 2019)	—	—	—	—	—
Independent non-executive directors					
Wong Che Man, Eddy	250	—	—	—	250
Lam Kin Hung, Patrick	250	—	—	—	250
Fung Ka Kin	250	—	—	—	250
	1,125	5,769	716	68	7,678

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

	For the year ended 31 December 2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based payment expenses RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors					
Chan Yuen Ming	104	2,994	—	16	3,114
Shao Kwok Keung	104	2,318	1,907	16	4,345
Xiu Zhi Bao	104	512	1,483	54	2,153
Yan Wei	104	208	—	10	322
Tian Zheng	104	208	—	10	322
Independent non-executive directors					
Wong Che Man, Eddy	260	—	—	—	260
Lam Kin Hung, Patrick	260	—	—	—	260
Fung Ka Kin	260	—	—	—	260
	1,300	6,240	3,390	106	11,036

Mr. Shao Kwok Keung is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

No emoluments have been paid to any directors or any five highest paid individuals set out below as an inducement to join or upon joining the Group or as compensation for loss of office for the current and prior years.

No directors waived or agreed to waive any emoluments during both years.

Except as disclosed in note 44 to the consolidated financial statements, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(Continued)

The five highest paid individuals included two (2017: three) directors whose emoluments are disclosed aboved. The aggregate of the emoluments in respect of the other three (2017: two) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	4,645	3,590
Share-based payment expenses	167	1,112
Retirement benefit scheme contributions	38	23
	4,850	4,725

The aggregated emoluments of the above individuals fell within the following bands:

	Number of individuals 2018	2017
Nil to RMB1,000,000	—	—
RMB1,000,001 to RMB2,000,000	2	1
RMB2,000,001 to RMB3,000,000	1	1

The above individuals include one (2017: one) senior management as disclosed in the section headed "Biography of Directors and Senior Management".

12. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

The computations of basic and diluted (loss)/earnings per share attributable to owners of the Company are based on the following data:

	2018 RMB'000	2017 RMB'000
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted earnings per share ((loss)/profit for the year attributable to owners of the Company)	(678,107)	228,781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

12. (LOSS)/EARNINGS PER SHARE *(Continued)*

From continuing and discontinued operations (Continued)

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**1,940,957**	1,953,926

As the Company's convertible bonds and outstanding share options where applicable had an anti-dilutive effect to the basic (loss)/earnings per share calculation for the years ended 31 December 2018 and 2017, the conversion of the above potential dilutive shares is not assumed in the calculation of diluted (loss)/earnings per share.

From continuing operations

The computations of basic and diluted (loss)/earnings per share from continuing operations attributable to owners of the Company are based on the following data:

	2018 RMB'000	2017 RMB'000
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted earnings per share ((loss)/profit for the year from continuing operations attributable to owners of the Company)	**(296,691)**	124,354

The weighted average number of ordinary shares used herein are same as those detailed above for the purpose of basic and diluted (loss)/earnings per share from continuing and discontinued operations respectively.

From discontinued operation

The computations of basic and diluted (loss)/earnings per share from discontinued operation attributable to owners of the Company are based on the following data:

	2018 RMB'000	2017 RMB'000
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted earnings per share ((loss)/profit for the year from discontinued operation attributable to owners of the Company)	**(381,416)**	104,427

The weighted average number of ordinary shares used herein are same as those detailed above for the purpose of basic and diluted (loss)/earnings per share from continuing and discontinued operations respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use RMB'000	Computer software and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Leasehold improvement RMB'000	Total RMB'000
Cost:						
At 1 January 2017	12,023	123,136	23,095	–	7,208	165,462
Additions	–	26,356	3,705	–	3,977	34,038
Acquisition through business combination *(note 40)*	–	28	–	–	–	28
Disposal	–	(12,112)	(1,981)	–	–	(14,093)
Exchange alignment	–	(67)	(223)	–	(161)	(451)
At 31 December 2017 and at 1 January 2018	**12,023**	**137,341**	**24,596**	**–**	**11,024**	**184,984**
Additions	**93,452**	**60,376**	**117**	**1,477**	**2,721**	**158,143**
Transfer from construction in progress	**–**	**1,440**	**–**	**(1,440)**	**–**	**–**
Disposal of subsidiaries *(note 39)*	**–**	**(84,616)**	**(2,549)**	**–**	**–**	**(87,165)**
Disposal and written off	**(9,593)**	**(50,459)**	**(1,979)**	**–**	**(2,290)**	**(64,321)**
Exchange alignment	**4,124**	**52**	**167**	**–**	**–**	**4,343**
At 31 December 2018	**100,006**	**64,134**	**20,352**	**37**	**11,455**	**195,984**
Accumulated losses:						
At 1 January 2017	2,526	70,953	9,432	–	4,937	87,848
Charge for the year	461	12,016	2,580	–	1,269	16,326
Written back upon disposal and written off	–	(10,001)	(1,237)	–	–	(11,238)
Exchange alignment	–	(50)	(76)	–	(68)	(194)
At 31 December 2017 and at 1 January 2018	**2,987**	**72,918**	**10,699**	**–**	**6,138**	**92,742**
Charge for the year	**2,736**	**20,453**	**2,457**	**–**	**2,325**	**27,971**
Disposal of subsidiaries *(note 39)*	**–**	**(64,566)**	**(1,931)**	**–**	**–**	**(66,497)**
Written back upon disposal and written off	**(1,595)**	**(24,832)**	**(1,738)**	**–**	**(1,140)**	**(29,305)**
Exchange alignment	**128**	**42**	**89**	**–**	**–**	**259**
At 31 December 2018	**4,256**	**4,015**	**9,576**	**–**	**7,323**	**25,170**
Carrying amounts						
At 31 December 2018	**95,750**	**60,119**	**10,776**	**37**	**4,132**	**170,814**
At 31 December 2017	9,036	64,423	13,897	–	4,886	92,242

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying amounts of motor vehicles held under finance leases as at 31 December 2018 amounted to approximately RMB347,000 (2017: RMB1,616,000).

At 31 December 2018, building held for own use with carrying amount of approximately RMB95,750,000 (2017:RMB9,036,000) is pledged for the Group's borrowings (note 31 to the consolidated financial statements).

14. INTANGIBLE ASSETS

	Technology know-how RMB'000	Customers relationship RMB'000	Backlog RMB'000	License agreement RMB'000	Trademark RMB'000	Total RMB'000
Cost:						
At 1 January 2017	81,735	67,077	510	439,528	45	588,895
Exchange alignment	–	–	–	(28,714)	–	(28,714)
At 31 December 2017 and at 1 January 2018	**81,735**	**67,077**	**510**	**410,814**	**45**	**560,181**
Exchange alignment	**–**	**–**	**–**	**21,609**	**–**	**21,609**
At 31 December 2018	**81,735**	**67,077**	**510**	**432,423**	**45**	**581,790**
Accumulated amortisation and impairment:						
At 1 January 2017	69,735	42,068	510	18,438	19	130,770
Charge for the year	12,000	5,002	–	33,243	9	50,254
Exchange alignment	–	–	–	(2,229)	–	(2,229)
At 31 December 2017 and at 1 January 2018	**81,735**	**47,070**	**510**	**49,452**	**28**	**178,795**
Charge for the year	**–**	**5,002**	**–**	**32,052**	**9**	**37,063**
Exchange alignment	**–**	**–**	**–**	**4,294**	**–**	**4,294**
At 31 December 2018	**81,735**	**52,072**	**510**	**85,798**	**37**	**220,152**
Carrying amounts:						
At 31 December 2018	**–**	**15,005**	**–**	**346,625**	**8**	**361,638**
At 31 December 2017	–	20,007	–	361,362	17	381,386

The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss. During the year ended 31 December 2018 and 2017, the directors determine that no impairment loss was recognised in respect of intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

15. GOODWILL

	RMB'000
Cost:	
At 1 January 2017	93,462
Arising on business combination (note 40)	1,157
At 31 December 2017, at 1 January 2018 and at 31 December 2018	**94,619**
Accumulated impairment losses:	
At 1 January 2017, at 31 December 2017, at 1 January 2018 and at 31 December 2018	**727**
Carrying amounts:	
At 31 December 2018	**93,892**
At 31 December 2017	93,892

Impairment tests for group of CGUs containing goodwill

The directors have assessed the recoverable amounts of goodwill as at 31 December 2018 by reference to the valuation as at 31 December 2018 and 31 December 2017 performed by Greater China Appraisal Limited, an independent firm of qualified valuer using the cash flow forecast projections based on financial budget covering a five-year period which approved by the directors. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2017: 3%), which do not exceed the long-term average growth rates for the business in which the group of units operates. The cash flows are discounted by using a pre-tax discount rate of approximately 20.72% (2017: 23.33%). The discount rates used are pre-tax and reflect specific risks relating to the relevant operations.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources. During the years ended 31 December 2018 and 2017, the directors believe that any reasonably possible change in any of these assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU of property investment operations in Guangzhou under Best Volume exceeds the recoverable amount. Thus, no impairment loss was recognised for the years ended 31 December 2018 and 2017.

The carrying amount of goodwill (net of accumulated impairment) allocated to the CGU is as follows:

	2018 RMB'000	2017 RMB'000
Display and touch modules under the ICT operations	**93,892**	93,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

16. PREPAID LAND LEASE

The prepaid land lease represents payment for the land owned by the Group in the PRC with medium term lease. The land was used for the industrial building construction. The prepaid land lease was disposed of upon disposal of the entire interest in 惠州市全通房地產開發有限公司 (Huizhou All Access Real Estate Development Co., Ltd.*) ("Huizhou Real Estate") held by the Group, during the year ended 31 December 2017 (note 39 to the consolidated financial statements).

17. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Cost of investments in associates, unlisted in the PRC	1,193	193
Share of post-acquisition profit/(loss) and other comprehensive income/(loss) in associates, net of dividend received	516	(193)
	1,709	–

Aggregate information of associates that are not individually material

	2018 RMB'000	2017 RMB'000
The Group share of profit and total comprehensive income	709	1,809

** for identification purposes only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

17. INTERESTS IN ASSOCIATES *(Continued)*

At the end of the reporting period, the Group had interests in the following associates:

Name of entity	Country of incorporation/ principal place of business	Proportion of ownership interest and voting power held by the Group 2018	2017	Principal activities
Unlisted				
廣州市鴻昌隆實業有限公司 (Guangzhou Hongchanglong Enterprises Limited*)	The PRC	**35%**	35%	Inactive
深圳埃瑞斯瓦特新能源有限公司 (Shenzhen Eriswat Energy Co., Limited*)	The PRC	**40%**	—	Development and provision of electronic components
山東立德新能源有限公司 (Shandong Lide New Energy Co., Limited*)	The PRC	**20%**	—	Development and provision of solar energy equipment and photovoltaic components

All associates are accounted for using equity method in the consolidated financial statements.

18. INVESTMENT PROPERTY

	2018 RMB'000	2017 RMB'000
At 1 January	**27,668**	24,867
(Loss)/gain arising on change in fair value	**(4,029)**	4,585
Disposal	**(27,168)**	—
Exchange alignment	**3,529**	(1,784)
At 31 December	**—**	27,668

The Group's property interests held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment property.

* *for identification purposes only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

18. INVESTMENT PROPERTY *(Continued)*

At 31 December 2017, investment property with carrying amount of approximately RMB27,668,000 is pledged for the Group's borrowings (note 31 to the consolidated financial statements).

The investment property is held under medium-term lease.

(a) Fair value hierarchy

The following table presents the fair value of the Group's investment property measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

- Level 3 valuations: fair value measured using significant unobservable inputs.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2017				
Fair value on a recurring basis				
Investment property located in Hong Kong	—	—	27,668	27,668

The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the events or change in circumstances that caused the transfer. During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The Group's investment property was revalued at the date of disposal/the end of the reporting period by Peak Vision Appraisals Limited (2017: Greater China Appraisal Limited), an independent firm of surveyors who are not connected to the Group, who have among their staff member of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

In estimating the fair value of the investment property, its current use equates to the highest and best use of the investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

18. INVESTMENT PROPERTY *(Continued)*

(b) Valuation techniques and inputs used in Level 3 fair value measurement

The fair value of investment property is individually determined at the end of the reporting period based on and by adopting investment method. The investment method relying on the capitalisation of rental income is based upon estimates of future results and a set of assumptions specific to property to reflect its tenancy status. The fair value of investment property reflects, among other things, rental income from current term, leases term yield rate, assumptions about rental receivables during the residual period in light of existing tenancies, the assumed capitalisation rate and reversionary yield rate. Judgement by the surveyors is required to determine the principal valuation factors, including term yield rate and reversionary yield rate.

Details of valuation techniques used and key inputs to valuation on investment property which is categorised as Level 3 fair value measurement at the end of the reporting period are as follows:

	Fair value 2017 RMB'000	Valuation technique	Significant unobservable inputs	Range
Property held investment in Hong Kong	27,668	Investment method	(i) Reversionary yield (ii) Market price per square foot	2.6%

Reversionary yield is the rate taking into account the capitalisation of potential rental income, nature of the property and prevailing market condition. Market price per square foot is the market price taking into account the direct comparable market transactions to the related properties.

The fair value measurements are negatively correlated to the reversionary yield, while positively correlated to the market price per square foot.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**62,062**	57,018
Work in progress	**31,735**	30,058
Consigned manufacturing materials	**3,284**	26,118
Finished goods	**136,178**	39,586
Goods in transit	**1,537**	3,455
	234,796	156,235

Inventories are expected to be recovered within one year.

The cost of inventories sold and write-down of obsolete inventories from continuing operations recognised as expenses and included in 'cost of sales' amounted to approximately RMB1,552,057,000 (2017: RMB2,044,533,000) and RMB10,543,000 (2017: RMB7,995,000).

20. TRADE AND OTHER RECEIVABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade receivables		**676,916**	2,279,889
Less: Allowance for credit losses		**(118,784)**	(70,134)
		558,132	2,209,755
Other receivables and deposits	(i), (ii) & (iv)	**1,351,160**	1,453,460
Consideration receivables for disposal of subsidiaries	(ii)	**1,502,161**	—
Performance guarantee deposits		**—**	30,888
Entrusted loans	(iii)	**50,000**	280,000
		2,903,321	1,764,348
Total trade and other receivables		**3,461,453**	3,974,103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

20. TRADE AND OTHER RECEIVABLES *(Continued)*

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes as:		
Current assets	2,671,108	3,974,103
Non-current assets	790,345	—
	3,461,453	3,974,103

Notes:

(i) At 31 December 2017, RMB905,000,000 of other receivables and deposits were structured deposits placed in a commercial bank, with maturity periods of 12 months. The deposits could be withdrawn any time prior to maturity. The structured deposits were derecognised upon disposal of Hebei Noter Group during the year ended 31 December 2018 (Note 39).

(ii) At 31 December 2018, consideration receivables from disposal of subsidiaries represent the remaining balance of consideration for the disposal of the entire equity interest in Hebei Noter Group to China RS Group Limited. The consideration shall be repayable in the manner as set forth in note 39 to the consolidated financial statements. The fair value of the consideration has been arrived on the basis of valuation carried out by Peak Vision Appraisals Limited, a firm of independent qualified professional valuers. The effective interest rate of the consideration on initial recognition is 13.58%. Details of the repayment terms of the consideration receivables are set out in the Company's circular dated 15 November 2018. The consideration receivables is secured over the share charge of Hebei Noter made by the Vendor in favour of the Group.

During the year ended 31 December 2018, an allowance for credit losses of approximately RMB12,007,000 was recognised in respect of other receivables and deposits.

(iii) At 31 December 2018, RMB50,000,000 of entrusted loans were provided to independent third parties through a financial institution. Entrusted loans are due on 20 June 2019. The Group does not hold any collateral over this balance from these independent third parties.

At 31 December 2017, RMB280,000,000 of entrusted loans were provided to independent third parties through a financial institution. Entrusted loans amounted to RMB230,000,000 and RMB50,000,000 are due on 28 March 2018 and 16 June 2018 respectively. The Group does not hold any collateral over this balance from these independent third parties.

The entrusted loans are interest-bearing at 12% (2017: 12%) per annum.

(iv) At 31 December 2017, other receivables in relation to deposits for purchases of building amounted to RMB76,500,000. Such amount was fully refunded during the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

20. TRADE AND OTHER RECEIVABLES *(Continued)*

At the end of the reporting period, the aging analysis of trade receivables (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit losses, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**274,318**	862,671
1 to 2 months	**21,362**	71,546
2 to 3 months	**19,020**	28,291
3 to 6 months	**18,709**	10,397
Over 6 months but within 1 year	**6,320**	28,754
Over 1 year	**218,403**	1,208,096
	558,132	2,209,755

The Group may grant credit up to 18 months to its customers according to the negotiation and relationship with these customers. Credit terms could be extended for certain well-established customers on a case-by-case basis. The Group does not hold any collateral over its customers.

During the year ended 31 December 2018, an allowance for credit losses of RMB119,665,000 was recognised in respect of trade receivables.

At 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB8,736,000. The impairment was recognised because there has been a significant change in credit quality and the amounts are considered irrecoverable.

Comparative information under HKAS 39

Aging of trade receivables which are past due but not impaired:

	2017 RMB'000
Neither past due nor impaired	1,954,935
Less than 1 month past due but not impaired	39,905
1 to 3 months past due but not impaired	30,253
3 to 12 months past due but not impaired	62,738
More than 12 months past due but not impaired	121,924
	2,209,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

20. TRADE AND OTHER RECEIVABLES *(Continued)*

Comparative information under HKAS 39 *(Continued)*

The movement in the allowance for credit losses during the year ended 31 December 2017, including both specific and collective loss components, is as follows:

	2017 RMB'000
At 1 January	153,277
Impairment loss recognised	8,736
Reversal of impairment loss	(91,879)
Disposal of subsidiaries	—
At 31 December	70,134

At 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB8,736,000. The impairment was recognised because there has been a significant change in credit quality and the amounts are considered irrecoverable.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 46.

21. PREPAYMENTS

	2018 **RMB'000**	2017 RMB'000
Prepayment for material purchases	**1,027,126**	440,194
Other prepayments	**2,432**	2,635
	1,029,558	442,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

22. LOANS RECEIVABLE

	2018 RMB'000	2017 RMB'000
Loans receivable	—	125,385

At 31 December 2017, the loans receivable with carrying amount of approximately RMB125,385,000 which are neither past due nor impaired at the end of the reporting period for which the Group believes that the amounts are considered as recoverable. These loans receivable that were neither individually nor collectively considered to be impaired relate to borrowers for whom there was no recent history of default.

The Group does not hold any collateral over its loans receivable.

The Group has a policy for allowance for bad and doubtful debts which is based on the evaluation of collectability of accounts and on management's judgement, including the current creditworthiness, collaterals and the past collection history of each client.

All of the loans receivable contain repayable on demand clause and thus classified as current assets in the consolidated statement of financial position.

At the end of each reporting period, the Group's loans receivable were individually determined to be impaired. In determining the recoverability of the loans receivable, the Group considers any change in the credit quality of the loans receivable. The directors believe that there is no impairment required for the year ended 31 December 2017.

A maturity profile of the loans receivable at the end of the reporting periods, based on the maturity date, is as follows:

	2018 RMB'000	2017 RMB'000
On demand or within 1 year	—	125,385

The loans receivable bear interest at 0.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

23. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets at 31 December 2018 and 2017 that were transferred to banks by discounting these receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a collateralised borrowing. These financial assets are carried at amortised cost, net of allowance for credit losses, in the Group's consolidated statement of financial position.

Bills receivable discounted to banks with full recourse

	2018 RMB'000	2017 RMB'000
Carrying amount of transferred assets	**169,607**	58,100
Carrying amount of associated liabilities	**(170,321)**	(58,100)
Net position	**(714)**	—

During the year ended 31 December 2018, an allowance for credit losses of RMB714,000 was recognised in respect of discounted bills receivable (2017: Nil).

24. BILLS RECEIVABLE

At 31 December 2018, bills receivable amounted to approximately RMB17,278,000 (net of allowance for credit losses) (2017: RMB63,284,000) included bank acceptance bills of approximately RMB3,947,000 (net of allowance for credit losses) (2017: RMB27,258,000) and no bills receivable had been pledged. No bills receivable had been endorsed to other parties but not yet due.

At the end of the reporting period, the aging analysis of bills receivable based on the bills received date is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**17,122**	35,600
1 to 2 months	**131**	3,480
2 to 3 months	**25**	1,258
3 to 6 months	**—**	22,946
	17,278	63,284

At 31 December 2018 and 2017, the Group's bills receivable was neither past due nor impaired.

During the year ended 31 December 2018, an allowance for credit losses of RMB72,000 was recognised in respect of bills receivable (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Listed securities classified as held for trading investment:		
Listed equity securities in Hong Kong	3,647	–
Unlisted equity security:		
Unlisted equity security outside Hong Kong	1,751	–
	5,398	–

Upon application of HKFRS 9 on 1 January 2018, the Group has reclassified unlisted debt security from AFS financial assets to financial assets at FVTPL.

At the end of the reporting period, all financial assets at FVTPL are stated at fair value. Fair values of listed securities classified as held for trading investments are determined with reference to quoted market closing price.

The fair value of the unlisted equity security, represents the 10% remaining interest in 河北浩廣通信科技有限公司 (Hebei Haoguang Communication Technology Limited*) ("Hebei Haoguang"), as a result of the disposal of Hebei Noter Group (refer to note 39 to the consolidated financial statements), has been arrived on the basis of valuation carried out by Peak Vision Appraisals Limited, an independent qualified professional valuer. The fair value of 10% remaining interest in Hebei Haoguang has been arrived by applying a discount for lack of marketability ("DLOM") of approximately 12.26%. DLOM was estimated by applying an option pricing model, which is one of the most commonly adopted approaches in estimating DLOM.

The fair value of the Group's equity securities listed in Hong Kong at the date of approval of these consolidated financial statements were approximately RMB3,696,000.

* for identification purposes only

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 RMB'000
Unlisted debt security in the PRC	10,000

Unlisted debt security is measured at costs less impairment as at 31 December 2017 because the range of reasonable fair value estimates is so significant that the directors are in the opinion that the fair value cannot be measured reliably.

Upon application of HKFRS 9 on 1 January 2018, the Group has reclassified the unlisted debt security to financial assets at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

27. RESTRICTED CASH

	Notes	2018 RMB'000	2017 RMB'000
Guarantee deposits for bills payable	(i)	**119,141**	116,680
Pledged deposits for bank borrowings	(ii)	**—**	203,500
Government grants	(iii)	**5,295**	5,585
Time deposits	(iv)	**30,293**	—
		154,729	325,765

Notes:

(i) The amount represents cash deposits in certain banks as guarantee deposits for the issuance of bills payable of equivalent amounts, as requested by the banks.

(ii) At 31 December 2017, the amount represents cash deposits pledged as collateral for the borrowings with the carrying amount of approximately RMB200,000,000.

(iii) The amount represents cash deposits in bank received from the government of the PRC which would be released upon the Group's compliance with the conditions attaching to them.

(iv) The amount represents the time deposits used for obtaining banking facilities for the Group's future usage.

28. CASH AND CASH EQUIVALENTS

Bank balances carry interest at floating rates and placed with creditworthy banks and financial institution with no recent history of default.

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The Group's cash and cash equivalents denominated in RMB of approximately RMB24,000 (2017: RMB189,000) located in Hong Kong which are not subject to the foreign exchange control.

The Group's cash and cash equivalents denominated in HK$ and United States dollar ("US$") amounted to approximately RMB1,556,000 and RMB13,412,000 (2017: RMB3,286,000 and RMB617,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

28. CASH AND CASH EQUIVALENTS *(Continued)*

Reconciliation of cash generated from operations:

	2018 RMB'000	2017 RMB'000
(Loss)/profit before taxation for continuing operations	**(289,858)**	140,102
(Loss)/profit before taxation for discontinued operation	**(221,628)**	116,595
Adjustments for:		
Exchange (gain)/loss, net	**15,497**	(2,031)
Depreciation of property, plant and equipment	**27,971**	16,326
Amortisation of intangible assets	**37,063**	50,254
Amortisation of prepaid land lease	**—**	957
Impairment loss recognised in respect of trade and other receivables	**131,672**	8,736
Impairment loss recognised in respect of bills receivables	**72**	—
Impairment loss recognised in respect of discounted bills receivable	**714**	—
Reversal of impairment loss recognised in respect of trade receivables	**(30,715)**	(91,879)
Write-down of obsolete inventories	**10,543**	7,995
Interest income from entrusted loans	**(11,977)**	(25,835)
Interest income from bank deposits	**(19,315)**	(23,238)
Interest income from structured deposits and other receivables	**(36,393)**	(33,025)
(Gain)/loss on disposal of property, plant and equipment	**(5,387)**	1,169
Finance costs	**218,853**	194,511
Waiver of loan interest payables	**—**	(3,911)
Written-off of property, plant and equipment	**1,148**	—
Loss/(gain) on disposal of subsidiaries	**228,653**	(6,971)
Gain on remeasurement of pre-existing interest in an associate to acquisition date fair value	**—**	(8,391)
Share of results of associates	**(709)**	(1,809)
Loss on fair value change of financial assets at fair value through profit or loss	**(1,788)**	—
Government subsidy	**(24,504)**	(17,802)
Loss/(gain) on fair value change of investment property	**4,029**	(4,585)
Share-based payment expenses	**3,783**	11,540
Operating cash flows before movements in working capital	**37,724**	328,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

28. CASH AND CASH EQUIVALENTS *(Continued)*

Reconciliation of cash generated from operations: (Continued)

	2018 RMB'000	2017 RMB'000
Operating cash flows before movements in working capital	**37,724**	328,708
(Increase)/decrease in inventories	**(157,454)**	348,652
Decrease/(increase) in trade and other receivables	**938,097**	(355,263)
(Increase)/decrease in prepayments	**(589,004)**	110,264
Decrease in financial assets at fair value through profit or loss	**8,147**	—
Decrease in loans receivables	**—**	953,106
Decrease in bills receivable	**45,934**	58,216
Decrease in restricted cash	**171,036**	180,709
Decrease in trade and other payables	**(40,270)**	(512,811)
Decrease in contract liabilities	**(13,540)**	—
Cash generated from operations	**400,670**	1,111,581

29. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade and bills payables	**491,772**	555,440
Other payables and accruals	**428,225**	224,801
Receipts in advance	**—**	90,388
	919,997	870,629

All of the trade payables, bills payable and other payables and accruals are expected to be settled within one year. Bills payable of approximately RMB119,141,000 (2017: RMB116,680,000) was supported by guarantee deposits of equivalent amount as requested by banks and presented as restricted cash (note 27 to the consolidated financial statements).

The credit period granted by suppliers ranging from 30 to 180 days.

At 31 December 2018, included in other payables and accruals, the total minimum lease payments of motor vehicles were approximately RMB337,000 (2017: RMB901,000), such amount of the present value of minimum lease payments were approximately RMB322,000 (2017: RMB856,000). The interest rate of such finance lease is 4.73% (2017: ranged from 2.50% to 4.73%) and the charge of finance lease is included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

29. TRADE AND OTHER PAYABLES *(Continued)*

At the end of the reporting period, the aging analysis of trade and bills payable based on the invoice date is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	136,254	285,784
1 to 3 months	64,364	84,678
3 to 6 months	117,569	141,686
Over 6 months but within 1 year	50,174	28,127
Over 1 year	123,411	15,165
	491,772	555,440

30. CONTRACT LIABILITIES

	At 31 December 2018 RMB'000	At 1 January 2018 RMB'000
Tailor-made electronic components	67,655	90,388

All of the Group's revenue recognised in the current year relates to carried-forward contract liabilities.

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 80% deposit on acceptance of manufacturing orders.

The contract liabilities in the current year was mainly due to non-refundable deposits received from customers at the start of a contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

31. BORROWINGS

	Notes	2018 RMB'000	2017 RMB'000
Credit loans	(i)	—	33,678
Guaranteed loans	(ii)	150,000	410,000
Promissory notes	(iii)	1,130,651	365,915
Mortgage loans	(iv)	61,600	8,899
Pledged loans	(v)	—	200,000
Unsecured loans	(vi)	50,000	—
		1,392,251	1,018,492

(a) The analysis of the carrying amounts of borrowings are as follows:

Notes:

(i) At 31 December 2017, credit loans of approximately RMB33,678,000 were provided by commercial bank. The annual interest rate of the above loan was 5.25%. The principal is repayable within one year.

(ii) At 31 December 2018, guarantee loans of approximately RMB150,000,000 (2017: RMB410,000,000) were guaranteed by either the Company, subsidiaries of the Company, Mr. Chan Yuen Ming ("Mr. Chan") or the government of the PRC. The guarantee loans were interest-free at 31 December 2018 (2017: 0% to 7.00% per annum).

(iii) Promissory notes

(a) On 23 August 2016, the Company and Mr. Chan entered into a note purchase agreement (the "Note Purchase Agreement") with Prosper Talent Limited ("Prosper Talent"), pursuant to which the Company has agreed to issue, and Prosper Talent has agreed to purchase from the Company, US$70,000,000 guaranteed notes (the "Notes") due in October 2018. Pursuant to the Note Purchase Agreement, Mr. Chan shall also provide a personal guarantee in favour of Prosper Talent to secure, among others, the due and punctual observance and performance by the Company under the Note Purchase Agreement and other documents in connection with the transaction contemplated under the Note Purchase Agreement.

The interest rate will be charged at 13% per annum.

Details are set out in the Company's announcement date 23 August 2016.

At 31 December 2018, the Notes was remained unsettled and the outstanding principal amount of the Notes was US$56,000,000 (equivalent to approximately RMB385,221,000) (2017: US$56,000,000, equivalent to approximately RMB365,915,000).

The Group is currently in the progress of negotiating with Prosper Talent for the extension of the Notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

31. BORROWINGS *(Continued)*

(a) The analysis of the carrying amounts of borrowings are as follows: *(Continued)*

Notes: *(Continued)*

(iii) Promissory notes *(Continued)*

(b) On 19 November 2018, the Company entered into agreements with Dundee Greentech Limited ("Dundee") to redeem the outstanding convertible bonds of HK$847,080,000 (equivalent to approximately RMB745,430,000) and issue a promissory note (the "Dundee Note") at the same outstanding principal amount. The Dundee Note was matured on 10 December 2018 and Mr. Chan shall also provide a personal guarantee in favour of Dundee to secure, among others, the due and punctual observance and performance by the Company under the agreement in connection with the transaction contemplated under the Dundee Note agreement.

The interest rate will be charged at 12% per annum.

At 31 December 2018, the Dundee Note was remained unsettled and the outstanding principal amount of the Dundee Note was HK$847,080,000 (equivalent to approximately RMB745,430,000).

The Group is currently in the progress of negotiating with Dundee for the extension of the Dundee Note.

(c) On 30 December 2016, the Company and Mr. Chan entered into a note purchase agreement (the "CTM Note Purchase Agreement") with Chance Talent Management Limited ("CTM"), pursuant to which the Company agreed to issue, and CTM agreed to purchase from the Company, HK$160,000,000 guaranteed notes (the "CTM Notes") due June 2017. Pursuant to the CTM Note Purchase Agreement, Mr. Chan shall provide a personal guarantee in favour of the CTM to secure, among others, the due and punctual observance and performance by the Company under the CTM Note Purchase Agreement and other documents with the transaction contemplated under the CTM Note Purchase Agreement.

The interest rate will be charged at 12% per annum.

Details are set out in the Company's announcement date 30 December 2016.

During the year ended 31 December 2017, the CTM Notes was fully repaid.

(iv) At 31 December 2018, mortgage loans of approximately RMB61,600,000 (2017: RMB8,899,000) were secured by the Group's building held for own use with the amounts of approximately RMB95,137,000 (2017: building held for own use and investment property RMB9,036,000 and RMB27,668,000 respectively). The mortgage loan with the amount of approximately HK$70,000,000 (equivalent to approximately RMB61,600,000) (2017: HK$9,174,000, equivalent to approximately RMB7,668,000) was also guaranteed by the Company. The mortgage loan is interest bearing at 9.25% per annum (2017:1.38% to 5.39% per annum) and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

31. BORROWINGS *(Continued)*

(a) The analysis of the carrying amounts of borrowings are as follows: *(Continued)*

Notes: *(Continued)*

(v) At 31 December 2017, pledged loans of RMB200,000,000 were pledged by bank deposits of the Group with carrying amount of approximately RMB203,500,000. The pledged loan is interest bearing at 1.70% per annum and repayable within one year.

(vi) At 31 December 2018, unsecured loans of RMB50,000,000 (2017: nil) with interest bearing at 8% per annum and repayable in 2 years.

Carrying amounts repayable:

	2018 RMB'000	2017 RMB'000
Current portion		
Within 1 year	**1,192,251**	860,515
Non-current portion		
More than 1 year but not exceeding 2 years	**200,000**	1,060
More than 2 years but not exceeding 5 years	**—**	151,193
Over 5 years	**—**	5,724
	200,000	157,977
Total borrowings	**1,392,251**	1,018,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

32. CONVERTIBLE BONDS

The movement of the liability component of the convertible bonds recognised in the consolidated statement of financial position is set out below:

	Oriental Convertible Bond RMB'000 *(Note (i))*	**Dundee Convertible Bond** RMB'000 *(Note (ii))*	**Total** RMB'000
Face value of convertible bonds at issued date	280,249	710,446	990,695
Less: equity component	(48,307)	(143,099)	(191,406)
Liability component on initial recognition	231,942	567,347	799,289
Less: direct issue costs attributable to liability component	(29)	(15)	(44)
Liability component on initial recognition, net of direct issue costs	231,913	567,332	799,245
Liability component at 1 January 2017	276,646	671,710	948,356
Add: imputed finance cost	30,211	50,530	80,741
Exchange alignment	(19,140)	(45,705)	(64,845)
Liability component at 31 December 2017 and at 1 January 2018	**287,717**	**676,535**	**964,252**
Add: imputed finance cost	**4,837**	**31,467**	**36,304**
Redemption of convertible bonds	**(291,900)**	**(706,465)**	**(998,365)**
Exchange alignment	**(654)**	**(1,537)**	**(2,191)**
Liability component at 31 December 2018	**—**	**—**	**—**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

32. CONVERTIBLE BONDS *(Continued)*

Notes:

(i) On 23 December 2014, the Company entered into the subscription agreement with ZTE (H.K.) Limited, pursuant to which the Company has conditionally agreed to issue, and ZTE (H.K.) Limited has conditionally agreed to subscribe for the convertible bonds in the principal amount of HK$350,000,000 at 100% of the face value of such principle due 2017 which may be converted into 109,375,000 conversion shares at the conversion price of HK$3.2 per conversion share (subject to adjustment). On 26 February 2015, the Company has completed the issuance and the proceeds from issuance of these convertible bonds of the net proceeds of approximately HK$349,000,000 were received. Following the completion of the placing and subscription on 8 June 2015, the conversion price of the convertible bond is adjusted to HK$3.177 per share. On 30 June 2015, ZTE (H.K.) Limited has transferred all the convertible bonds to a third party company — Oriental (Asia) Investment Holdings Limited. On 20 July 2015, the Company entered into a supplemental deed with Oriental (Asia) Investment Holdings Limited to, among others, extend the maturity date of the convertible bond from 26 February 2017 to 26 February 2018 and adjust of the conversion price to HK$2.34 per conversion shares resulting in amending of terms of convertible bond.

During the year ended 31 December 2018, Oriental Convertible Bond was fully settled.

(ii) On 9 June 2015, the Company entered into the subscription agreement with Dundee to which the Company has conditionally agreed to issue, and Dundee has conditionally agreed to subscribe for, the convertible bonds in the principal amount of HK$847,080,000 (equivalent to approximately RMB710,446,000) at 100% of the face value of such principal amount, which may be converted into 362,000,000 conversion shares at the conversion price of HK$2.34 per conversion share (subject to adjustment). The conditions precedent for completion have been fulfilled and the completion took place on 10 August 2015.

On 19 November 2018, the Company entered into agreements with Dundee to redeem the outstanding convertible bonds of HK$847,080,000 (equivalent to approximately RMB745,430,000) and issue of Dundee Note at the same outstanding principal amount. Subsequent to the issuance of Dundee Note, the Dundee Convertible bonds was fully settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

33. DEFERRED TAXATION

(a) *Deferred tax assets and liabilities in the consolidated statement of financial position represent:*

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Intangible assets RMB'000	**Allowance for credit losses** RMB'000	**Total** RMB'000
At 1 January 2017	9,252	—	9,252
Credit to profit or loss *(note 9)*	(1,854)	—	(1,854)
At 31 December 2017 and at 1 January 2018	**7,398**	**—**	**7,398**
Credit to profit or loss *(note 9)*	**(750)**	**(800)**	**(1,550)**
At 31 December 2018	**6,648**	**(800)**	**5,848**

(b) *Unrecognised tax losses*

The Group determined that it was not probable that these tax losses and other temporary differences could be utilised in foreseeable future. At 31 December 2018, unused estimated tax losses not recognised of approximately RMB166,521,000 (2017: RMB155,573,000) will expire within five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

33. DEFERRED TAXATION *(Continued)*

(c) Deferred tax liabilities not recognised

The PRC Enterprise Income Tax law also imposes a withholding tax rate of 10% or 5%, unless reduced by a tax treaty or agreement, on dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. At 31 December 2018, temporary differences relating to the post-2007 undistributed profits of the Group's foreign-invested enterprises amounted to approximately RMB1,425,817,000 (2017: RMB1,803,226,000). Deferred tax liabilities of approximately RMB142,582,000 (2017: RMB180,323,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings since these earnings are not intended to be distributed in the foreseeable future.

34. SHARE OPTION SCHEMES

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 28 August 2009.

The purpose of the Share Option Scheme is to enable the Group to grant share options to eligible participants as incentives or rewards for their contribution to the Group.

On 10 June 2015, a total of 50,000,000 share options (each share option entitling the holder to subscribe for one Share) were granted to eligible participants including two directors and the rest were employees of the Group. Under the Share Option Scheme, the directors of the Company may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of shares of the Company on Exchange as stated in the Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the shares of the Company on Exchange as stated in the Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Company's share. The offer of a grant of options may be accepted within 21 days from the date of the offer. A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The exercise period of the options granted is determinable by the directors of the Company, which commences after the date of offer with a certain vesting period and ends in any event not later than 4 years from the respective date when the share options are granted, subject to the provisions for early termination thereof.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme is an amount equivalent to 10% of the shares of the Company in issue at the date of the 2009 AGM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

34. SHARE OPTION SCHEMES *(Continued)*

The maximum number of shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Group must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time.

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with an aggregate value in excess of HK$5 million must be approved in advance by the Company's shareholders. The Share Option Scheme does not provide for any minimum period for holding of options or any performance targets before exercise of options.

The fair value was calculated using binomial model. The inputs in the model were as follows:

	2015	**2018**
Fair value at measurement date	HK$0.727	**HK$0.239**
Share price	HK$3.050	**HK$0.690**
Exercise price	HK$3.050	**HK$0.690**
Expected volatility (expressed as weighted average volatility used in modelling)	37.558%	**64.317%**
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	4 years	**4 years**
Risk-free interest rate (based on exchange Fund Notes)	0.872%	**2.348%**

Particulars of the Company's share option scheme are set out in paragraphs headed "Share Option Scheme" in the section headed "Report of the Directors".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

34. SHARE OPTION SCHEMES *(Continued)*

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

	Outstanding at 1 January 2017	Lapsed or cancelled during the year	Outstanding at 31 December 2017 and at 1 January 2018	Granted during the year	Lapsed or cancelled during the year	Outstanding at 31 December 2018	Exercise price HK$	Date of grant	Vesting period	Exercisable period
Executive Directors										
Shao Kwok Keung	3,000,000	–	3,000,000	–	–	3,000,000	3.05	10 June 2015	10 June 2015 to 9 June 2016	10 June 2016 to 9 June 2019
	3,000,000	–	3,000,000	–	–	3,000,000	3.05	10 June 2015	10 June 2015 to 9 June 2017	10 June 2017 to 9 June 2019
	3,000,000	–	3,000,000	–	–	3,000,000	3.05	10 June 2015	10 June 2015 to 9 June 2018	10 June 2018 to 9 June 2019
	–	–	–	5,266,666	–	5,266,666	0.69	26 September 2018	26 September 2018 to 25 September 2019	26 September 2019 to 25 September 2022
	–	–	–	5,266,667	–	5,266,667	0.69	26 September 2018	26 September 2018 to 25 September 2020	26 September 2020 to 25 September 2022
	–	–	–	5,266,667	–	5,266,667	0.69	26 September 2018	26 September 2018 to 25 September 2021	26 September 2021 to 25 September 2022
Xiu Zhi Bao	2,333,333	–	2,333,333	–	(2,333,333)	–	3.05	10 June 2015	10 June 2015 to 9 June 2016	10 June 2016 to 9 June 2019
	2,333,333	–	2,333,333	–	(2,333,333)	–	3.05	10 June 2015	10 June 2015 to 9 June 2017	10 June 2017 to 9 June 2019
	2,333,334	–	2,333,334	–	(2,333,334)	–	3.05	10 June 2015	10 June 2015 to 9 June 2018	10 June 2018 to 9 June 2019
Employees	11,333,333	(2,850,000)	8,483,333	–	(2,316,666)	6,166,667	3.05	10 June 2015	10 June 2015 to 9 June 2016	10 June 2016 to 9 June 2019
	11,333,333	(2,850,000)	8,483,333	–	(2,316,666)	6,166,667	3.05	10 June 2015	10 June 2015 to 9 June 2017	10 June 2017 to 9 June 2019
	11,333,334	(2,850,000)	8,483,334	–	(2,316,668)	6,166,666	3.05	10 June 2015	10 June 2015 to 9 June 2018	10 June 2018 to 9 June 2019
	–	–	–	21,400,000	–	21,400,000	0.69	26 September 2018	26 September 2018 to 25 September 2019	26 September 2019 to 25 September 2022
	–	–	–	21,400,000	–	21,400,000	0.69	26 September 2018	26 September 2018 to 25 September 2020	26 September 2020 to 25 September 2022
	–	–	–	21,400,000	–	21,400,000	0.69	26 September 2018	26 September 2018 to 25 September 2021	26 September 2021 to 25 September 2022
	50,000,000	(8,550,000)	41,450,000	80,000,000	(13,950,000)	107,500,000				
Weighted average exercise price	HK$3.05	HK$3.05	HK$3.05	HK$0.69	HK$3.05	HK$1.27				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current assets		
Interests in subsidiaries	**82,163**	78,045
Intangible assets	**346,625**	361,362
Amounts due from subsidiaries	**1,636,384**	2,795,628
	2,065,172	3,235,035
Current assets		
Financial assets at fair value through profit or loss	**3,647**	—
Amounts due from subsidiaries	**169,342**	168,160
Other receivables	**—**	82
Cash and cash equivalents	**56**	90
	173,045	168,332
Current liabilities		
Amounts due to subsidiaries	**35,228**	33,528
Other payables and accruals	**294,966**	45,513
Income tax payable	**10,221**	6,074
Borrowings	**1,130,651**	405,915
Convertible bonds	**—**	964,252
	1,471,066	1,455,282
Net current liabilities	**(1,298,021)**	(1,286,950)
Total assets less current liabilities	**767,151**	1,948,085
Non-current liability		
Borrowings	**50,000**	—
Net assets	**717,151**	1,948,085
Capital and reserves		
Share capital	**16,017**	16,993
Reserves	**701,134**	1,931,092
Total equity	**717,151**	1,948,085

Signed on behalf of the board of directors by:

Mr. Chan Yuen Ming
Chairman and Executive Director

Mr. Shao Kwok Keung
Chief Executive Officer and Executive Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

36. CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

	Notes	Share Capital RMB'000 Note 35(c)	Share premium RMB'000 Note 35 (d)(i)	Capital redemption reserve RMB'000 Note 35(d)(ii)	Contributed surplus RMB'000 Note 35(d)(iii)	Capital reserve RMB'000 Note 35(d)(iv)	Share-based compensation reserve RMB'000 Note 35(d)(v)	Translation reserve RMB'000 Note 35(d)(vii)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017		16,267	1,562,964	104	90,303	397,870	15,673	139,758	(34,167)	2,188,772
Loss for the year		–	–	–	–	–	–	–	(67,702)	(67,702)
Other comprehensive loss		–	–	–	–	–	–	(142,306)	–	(142,306)
Total comprehensive loss		–	–	–	–	–	–	(142,306)	(67,702)	(210,008)
Issuance of consideration shares		726	188,412	–	–	(189,138)	–	–	–	–
Share-based payment expenses		–	–	–	–	–	11,540	–	–	11,540
Lapse of share options		–	–	–	–	–	(2,710)	–	2,710	–
Dividend approved and paid in respect of prior year	36	–	(42,219)	–	–	–	–	–	–	(42,219)
Balance at 31 December 2017 and at 1 January 2018		**16,993**	**1,709,157**	**104**	**90,303**	**208,732**	**24,503**	**(2,548)**	**(99,159)**	**1,948,085**
Loss for the year		–	–	–	–	–	–	–	(1,108,500)	(1,108,500)
Other comprehensive income		–	–	–	–	–	–	36,592	–	36,592
Total comprehensive income/(loss)		–	–	–	–	–	–	36,592	(1,108,500)	(1,071,908)
Cancellation of shares repurchased										
– par value paid		(976)	–	–	–	–	–	–	–	(976)
– premium paid		–	(73,845)	–	–	–	–	–	–	(73,845)
Redemption of convertible bonds		–	–	–	–	(208,732)	–	–	208,732	–
Share-based payment expenses		–	–	–	–	–	3,783	–	–	3,783
Lapse of share options		–	–	–	–	–	(8,357)	–	8,357	–
Dividend approved and payable in respect of prior year	36	–	–	–	–	–	–	–	(87,988)	(87,988)
Balance at 31 December 2018		**16,017**	**1,635,312**	**104**	**90,303**	**–**	**19,929**	**34,044**	**(1,078,558)**	**717,151**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

36. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

(i) Proposed final dividends:

	2018		2017	
		Equivalent to		Equivalent to
	HK$'000	RMB'000	HK$'000	RMB'000
Final dividend proposed after the end of the reporting period of nil per ordinary share (2017: HK5.0 cents per ordinary share)	–	–	99,986	83,578

The final dividend proposed after the end of the reporting period has not been recognised as liability at the end of the reporting period.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2018.

(ii) Dividends paid/payable to owners of the Company are as follows:

	2018		2017	
		Equivalent to		Equivalent to
	HK$'000	RMB'000	HK$'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid/payable during the year, of HK5.0 cents per ordinary share (2017: HK2.5 cents per ordinary share)	99,986	87,988	49,993	42,219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

36. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) *Share capital*

	2018 No. of shares '000	2018 Amount HK$'000	2017 No. of shares '000	2017 Amount HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At the beginning and the end of the reporting period	**100,000,000**	**1,000,000**	100,000,000	1,000,000
Issued and fully paid:				
At the beginning of the reporting period	**1,999,723**	**19,997**	1,915,723	19,157
Issuance of consideration shares *(Note (i))*	**—**	**—**	84,000	840
Repurchase and cancellation of shares *(Note (ii))*	**(117,054)**	**(1,171)**	—	—
At the end of the reporting period	**1,882,669**	**18,826**	1,999,723	19,997
		RMB'000		RMB'000
Equivalent to		**16,017**		16,993

Notes:

(i) On 12 May 2016, the Group had entered into the Patent Licence Agreement to acquire the intangible assets, of which part of the consideration of to be satisfied by the issuance of consideration shares in accordance with the terms and conditions of the Patent Licence Agreement as below:

— First Batch Consideration Shares were allotted and issued by the Company to Dr. Li on 22 July 2016.

— Second Batch Consideration Shares were allotted and issued by the Company to Dr. Li on 20 July 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

36. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

Notes: (Continued)

(ii) During the year ended 31 December 2018, the Company repurchased and cancelled its own shares as follows:

Month of repurchase	No. of ordinary share of HK$0.01 each	Price per share		Aggregate consideration paid
		Highest	Lowest	
	'000	HK$	HK$	HK$'000
May 2018	92,604	1.90	0.69	71,078
June 2018	10,616	0.78	0.73	8,150
July 2018	13,834	0.78	0.73	10,486
	117,054			89,714
Equivalent to (RMB'000)	117,054			74,821

The above ordinary shares were cancelled in June 2018 and September 2018.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

During the year ended 31 December 2017, no ordinary shares were repurchased and cancelled.

(d) Nature and purpose of reserve

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company which is governed by the Cayman Companies Law.

(ii) Capital redemption reserve

Pursuant to the provision of Cayman Companies Law, shares of a company are repurchased wholly out of the Company's profits, the amount by which the Company's issued share capital is diminished on cancellation of the shares repurchased shall be transferred to the capital redemption reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

36. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserve *(Continued)*

(iii) Contributed surplus

The contribution surplus comprises the difference between the consolidated net assets of China All Access Group Limited over the nominal value of the shares issued by the Company in exchange as at the date of reorganisation on 28 August 2009. The contributed surplus is distributable to the shareholders of the Company.

(iv) Capital reserve

Capital reserve comprises the following:

— the liabilities waived by the controlling shareholders

— the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds.

— the difference between the considerations of acquisition or disposal of equity interest from/to non-controlling interests and the carrying amount of the proportionate net assets.

(v) Share-based compensation reserve

Share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount will be transferred to retained earnings when the related options are exercised, expired or forfeited.

(vi) Statutory general reserve

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

The statutory general reserve can be used to cover previous years' losses, if any, and may be converted into paid-up capital to shareholders in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital of the PRC subsidiaries.

(vii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of entities outside the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

36. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to owners of the Company was approximately RMB647,057,000 (2017: RMB1,700,301,000).

(f) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group are not subjected to externally imposed capital requirements.

The gearing ratio (calculated by dividing borrowings by total assets) as at 31 December 2018 was approximately 23.57% (2017: 14.56%).

37. SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On 3 November 2017, the Group had entered into and completed a series of sale and purchase agreements with the non-controlling interests ("group of NCI") of Shenzhen Kangquan, pursuant to which the Group had agreed to acquire, and the group of NCI had agreed to sell, their respective equity interests in Shenzhen Kangquan at an aggregate consideration of RMB6,800,000. Shenzhen Kangquan is engaged in manufacturing of handset shell. As a result of the acquisition, the Group's shareholding in Shenzhen Kangquan increased from 57.5% to 100%. The Group recognised an increase in non-controlling interests of approximately RMB30,265,000 and a decrease in equity attributable to owners of the Company of approximately RMB37,065,000.

On 27 September 2017, Galaxy Asia, being the subscriber of the 25% enlarged issued share capital of Lide Holdings, had exercised the put option attached to the subscription agreement dated 4 January 2016, to require CAA Investment to acquire all of the Option Shares at a total consideration of approximately HK$48,834,000 (equivalent to approximately RMB47,987,000) pursuant to the terms and conditions as set out in the Subscription Agreement as agreed by CAA Investment, Lide Holdings and Galaxy Asia. The completion date of the exercise of put option took place on 30 September 2017. Upon completion, Lide Holdings became the wholly-owned subsidiary of the Company. The Group recognised a decrease in non-controlling interests of approximately RMB23,874,000 and a decrease in equity attributable to owners of the Company of approximately RMB24,113,000.

Details of the exercise of put option are set out in the Company's announcement dated 27 September 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

38. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute certain percentage of its payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contribution.

39. DISPOSAL OF SUBSIDIARIES

Disposal of Hebei Noter Group

On 3 June 2018, the Group entered into a sale and purchase agreement (the "Disposal Agreement") with China RS Group Limited, pursuant to which the Group has agreed to sell, and China RS Group Limited has agreed to acquire, the entire equity interest in the Hebei Noter Group at cash consideration of RMB1,750,000,000, payable in the following manner:

(1) RMB175,000,000 shall be payable within 60 business days after date of the Disposal Agreement;
(2) RMB350,000,000 shall be payable within 6 months after the date of Disposal Agreement;
(3) RMB350,000,000 shall be payable within 12 months after the date of the Disposal Agreement;
(4) RMB350,000,000 shall be payable within 18 months after the date of the Disposal Agreement;
(5) RMB350,000,000 shall be payable within 24 months after the date of the Disposal Agreement;
(6) RMB175,000,000 shall be payable within 30 months after the date of the Disposal Agreement.

The disposal was completed on 7 December 2018 and the net assets of Hebei Noter Group at the date of disposal were as follows:

	RMB'000
Consideration receivables	1,492,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

Disposal of Hebei Noter Group *(Continued)*

Analysis of assets and liabilities over which control was lost:

	RMB'000
Net assets disposed of:	
Property, plant and equipment *(note 13)*	20,668
Inventories	68,350
Trade and other receivables	1,890,285
Prepayments	2,275
Bank deposits with original maturity over three months	960,000
Cash and cash equivalents	247
Trade and other payables	(1,182,644)
Contract liabilities	(9,193)
Income tax payables	(26,957)
Net assets disposed of	1,723,031

Loss on disposal of subsidiaries:

	RMB'000
Consideration receivables	1,492,618
Fair value of investment retained	1,760
Net assets disposed of	(1,723,031)
Loss on disposal of subsidiaries	(228,653)

Net cash outflow arising on disposal:

	RMB'000
Cash consideration received	—
Less: cash and cash equivalents disposed of	(247)
Net cash outflow arising on disposal	(247)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

Disposal of Huizhou Real Estate

On 23 October 2017, the Group had entered into a sale and purchase agreement with an independent third party, pursuant to which the Group had agreed to sell, and the independent third party had agreed to acquire, the entire equity interest in Huizhou Real Estate held by the Group, a non-wholly owned subsidiary of the Group, at a total consideration RMB11,000,000. Huizhou Real Estate was principally engaged in real estate development in the PRC. The disposal was completed on 25 October 2017. Upon completion of the disposal of Huizhou Real Estate, the Group did not hold any equity interest in Huizhou Real Estate and Huizhou Real Estate ceased to be a subsidiary of the Group.

The net assets of Huizhou Real Estate, at the date of disposal were as follows:

	RMB'000
Consideration received	11,000

Analysis of assets and liabilities over which control was lost:

	RMB'000
Net assets disposed of:	
Prepaid land lease	69,346
Cash and cash equivalents	2
Amount due to intermediate holding company	(64,625)
Net assets disposed of	4,723

Gain on disposal of a subsidiary:

	RMB'000
Total consideration	11,000
Net assets disposed of	(4,723)
Non-controlling interests	694
	6,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

Disposal of Huizhou Real Estate *(Continued)*

Net cash inflow arising on disposal:

	RMB'000
Cash consideration received	11,000
Less: cash and cash equivalents disposed of	(2)
	10,998

40. BUSINESS COMBINATION

As fully explained in note 17 to the consolidated financial statements, the Group has deemed control over Ganzhou Lide on 9 October 2017 (the "Step Acquisition"). Prior to the Step Acquisition, the Group held 20% equity interest in Ganzhou Lide, the directors of the Company had determined that the Group had significant influence over Ganzhou Lide and Ganzhou Lide was accounted for as an associate of the Group. As a result of the Step Acquisition, the Group's equity interest in Ganzhou Lide has increased from 20% to 100% and Ganzhou Lide has become a wholly-owned subsidiary of the Group, the result of Ganzhou Lide is consolidated into the Group's consolidated financial statements commencing from the Acquisition Date.

The Group accordingly remeasured the fair value of its previously held equity interest in Ganzhou Lide at the Acquisition Date and recognised the resulting gain of approximately RMB8,391,000 on remeasurement of the Group's pre-existing interest in Ganzhou Lide to Acquisition Date fair value and included such gain in the consolidated statement of profit or loss.

The fair value of the pre-existing interest in Ganzhou Lide was assessed by reference to the valuation as at Acquisition Date performed by Peak Vision Appraisals Limited, an independent firm of qualified valuer, using market approach based on the share price of a certain number of public traded companies engaged in the same or similar line of business with a control premium.

Details of the carrying amount and fair value of the Group's pre-existing interest in Ganzhou Lide at the Acquisition Date are summarised as follows:

	RMB'000
Share of net assets	1,809
Less: Fair value of pre-existing interest	(10,200)
Gain on remeasurement	(8,391)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

40. BUSINESS COMBINATION *(Continued)*

The aggregate fair values of the identifiable assets and liabilities of Ganzhou Lide at the Acquisition Date are as follows:

	Fair values recognised at acquisition date RMB'000
Property, plant and equipment *(note 13)*	**28**
Trade and other receivables	**114,928**
Prepayments	**6,199**
Bills receivable	**73,511**
Restricted cash	**23,189**
Cash and cash equivalents	**55,216**
Trade and other payables	**(112,425)**
Income tax payables	**(1,603)**
Borrowings	**(150,000)**
Total identifiable net assets	**9,043**
Goodwill	**1,157**
Total consideration	**10,200**
Satisfied by:	
Cash	**—**
Fair value of pre-existing interest in Ganzhou Lide	**10,200**
	10,200

Goodwill arose in the acquisition of Ganzhou Lide because the cost of the combination included a control premium. In addition, the consideration for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Ganzhou Lide. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

No transaction costs were incurred for the Step Acquisition.

The net cash inflow in respect of the Step Acquisition amounted to approximately RMB55,216,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

40. BUSINESS COMBINATION *(Continued)*

Impact of acquisition on the results of the Group

Included in the revenue and profit for the year of approximately RMB81,771,000 and RMB20,931,000 was attributable to the additional business generated by Ganzhou Lide respectively.

Had the Step Acquisition been effected at 1 January 2017, the revenue and the profit for the year of the Group would have been approximately RMB2,712,376,000 and RMB240,142,000 respectively. The directors of the Company consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined Group on an annualised basis and to provide an reference for comparison in future period.

In determining the 'pro-forma' revenue and profit of the Group had Ganzhou Lide been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

41. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2018 are as follows:

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest and voting power held by the Company		Principal activity
			2018	2017	
All Access Communication Technology (Shenzhen) Limited* 全通集團(深圳)有限公司	The PRC/ 28 June 2013 (Note (ii))	RMB60,000,000	100%	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
All Access Zhisheng (Shenzhen) Investment Consultancy Co., Limited* 全通智盛(深圳)投資咨詢有限公司	The PRC/ 21 October 2013	RMB100,000	100%	100%	Investment holding
Beijing All Access 北京全通	The PRC/ 21 October 2009	US$30,000,000	100%	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
China All Access Group Limited 中國全通集團有限公司	BVI/12 May 2006 (Note (i))	US$10,000	100%	100%	Investment holding
All Access Global Limited 全通環球有限公司	Hong Kong/ 18 June 2008	HK$10,000	100%	100%	Investment holding
China All Access Capital Limited 中國全通資本有限公司	BVI/ 4 November 2015 (Note (i))	US$1	100%	100%	Investment holding
China All Access International Limited 中國全通國際有限公司	BVI/ 29 June 1016 (Note (i))	US$10,000	100%	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

41. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest and voting power held by the Company 2018	2017	Principal activity
CAA Investment 中國全通投資	BVI/ 28 August 2014 (Note (i))	US$1	**100%**	100%	Investment holding
China All Access Ruichang Supply Chain Management (Shenzhen) Co., Limited* 全通瑞暢供應鏈管理(深圳)有限公司	The PRC/ 11 February 2014	RMB5,000,000	**100%**	100%	Supply chain management and cargo agency
China All Access Stockholding Limited 中國全通股份有限公司	BVI/ 28 October 2015 (Note (i))	US$1	**100%**	100%	Investment holding
Lide Holdings 中國立德控股有限公司	Cayman Islands/ 11 November 2015	HK$1,333	**100%**	100%	Investment holding
China Lide Group Limited 中國立德集團有限公司	BVI/ 17 November 2015	US$1	**100%**	100%	Investment holding
Ganzhou Lide 贛州立德	The PRC/ 9 December 2016	RMB80,000,000	**100%**	100%	Manufacturing of handset screen
Guangdong All Access Noter Communication Technology Co., Limited* 廣東全通諾特通信技術有限公司	The PRC/ 20 April 2010 (Note (ii))	US$70,000,000	**100%**	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Hebei Haoguang 河北浩廣	The PRC/ 2 April 2013	RMB20,000,000	**N/A**	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

41. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest and voting power held by the Company 2018	2017	Principal activity
Hebei Noter 河北諾特	The PRC/ 21 August 2006	US$22,500,000	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Huizhou All Access Communication Technology Co., Limited* 惠州市全通通信技術有限公司	The PRC/ 22 September 2014 (Note (iii))	RMB10,000,000	–	–	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Lide Global Limited 立德環球有限公司	Hong Kong/ 14 December 2015	HK$1	100%	100%	Investment holding
Shenzhen Lead* 深圳市立德	The PRC/ 17 June 2003 (Note (ii))	RMB262,137,000	100%	100%	Manufacturing of handset screen
Shenzhen Lead Innovative Energy Co., Limited* 深圳市立德創新新能源有限公司	The PRC/ 27 September 2017	RMB5,000,000	100%	100%	Research and development, installation and application of device for photovoltaic plants
Shanghai All Access Notor Communication Technology Co., Limited* 上海全通諾特通信技術有限公司	The PRC/ 23 December 2009 (Note (ii))	US$15,000,000	100%	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Shenzhen Changfei Investment Co., Limited* 深圳市長飛投資有限公司	The PRC/ 6 February 2004	RMB27,750,000	100%	100%	Investment holding
Shenzhen Kangquan 深圳康銓	The PRC/ 2 June 2003	RMB16,000,000	100%	100%	Manufacturing of handset shell
Shenzhen Wanyu Technologies Co., Limited* 深圳萬譽電子技術有限公司	The PRC/ 30 April 2007	RMB8,000,000	100%	100%	Manufacturing of handset shell

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

41. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest and voting power held by the Company 2018	2017	Principal activity
Tianjin Hailangtong Technology Co., Limited* 天津海藍通科技有限公司	The PRC/ 23 April 2011 (Note (ii))	US$10,000,000	**100%**	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Quantong Zhihui Enterprise Management Consulting (Shenzhen) Co., Ltd.* 全通智匯企業管理諮詢(深圳)有限公司	The PRC/ 2 April 2018	RMB10,000,000	**100%**	–	Investment holding
Shenzhen Quantong Research Institute Co., Ltd.* 深圳市全通科研院有限公司	The PRC/ 10 January 2017	RMB200,000,000	**100%**	100%	Investment holding

* *for identification purposes only*

Notes:

(i) Directly held by the Company

(ii) Wholly foreign-owned enterprise

(iii) The entity was deregistered during the year ended 31 December 2017

Except for subsidiaries stated note (i) are directly held by the Company, all other subsidiaries are indirectly held by the Company.

None of the subsidiaries had debt securities outstanding at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

42. COMMITMENTS

(a) Capital commitments

	2018 RMB'000	2017 RMB'000
Authorised and contracted, but not provided for:		
Contribution to be made in the paid-up capital of an associate	7,664	—
Acquisition for the property, plant and equipment	64,420	—
	72,084	—

(b) Lease commitments

The Group as lessee

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2018 RMB'000	2017 RMB'000
Within one year	12,531	7,598
In the second to fifth year, inclusive	4,600	1,518
	17,131	9,116

The Group is the lessee in respect of a number of properties. The leases typically run for an initial period of one to eight years, with an option to renew the leases when all the terms are renegotiated. None of the leases include contingent rentals.

The Group as lessor

Property rental income earned during the year was approximately RMB75,000 (2017: RMB124,000) less outgoings of approximately RMB79,000 (2017: RMB152,000).

At 31 December 2017, the investment property of the Group is expected to generate annual rental yield of 0.45% on an ongoing basis. The investment property is held in Hong Kong and has committed tenant for one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

42. COMMITMENTS *(Continued)*

(b) Lease commitments *(Continued)*

The Group as lessor *(Continued)*

At the end of the reporting period, the Group had contracted with tenant for the following future minimum lease payments:

	2018 RMB'000	2017 RMB'000
Within one year	–	57

43. FINANCIAL GUARANTEE CONTRACT

At the end of the reporting period, the Company has issued guarantee, which was made by the Company, to a bank in respect of a mortgage loan granted to All Access Global Limited that expires upon full repayment of the mortgage loan on 25 February 2035.

As at 31 December 2018 and 2017, the directors do not consider it is probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company as at 31 December 2018 under the guarantee was the total outstanding amount of the loan of approximately HK$70,000,000 (equivalent to approximately RMB61,600,000) (2017: HK$9,174,000, equivalent to approximately RMB7,668,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

44. MATERIAL RELATED PARTY TRANSACTIONS

(a) *Material related party transactions*

	Note	**2018 RMB'000**	2017 RMB'000
Rental expenses			
— Mr. Chan	(i)	**341**	341

Note:

(i) Controlling shareholder of the Company.

(b) *Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts payable to the Company's directors as disclosed in note 11 to the consolidated financial statements, is as follows:

	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	**11,303**	12,159
Share-based payment expenses	**1,046**	4,663
Retirement benefit scheme contributions	**124**	158
	12,473	16,980

(c) *Guarantee by related party*

At 31 December 2018, guaranteed loan of RMB150,000,000 (2017: RMB200,000,000), the Notes with principal amount of US$56,000,000 (equivalent to approximately RMB385,221,000) (2017: US$70,000,000, total equivalent to approximately RMB365,915,000) and the Dundee Note with the principal amount of HK$847,080,000 (equivalent to approximately RMB745,430,000) (2018: nil) were guaranteed by Mr. Chan without any charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

45. MAJOR NON-CASH TRANSACTIONS

The Group entered into the followings major non-cash investing and financing activities which were not reflected in the consolidated statement of cash flows:

(i) On 20 July 2017, the Company allotted and issued Second Batch Consideration Shares at issue price of HK$2.50 per share as partial consideration for the acquisition of Patent Licence Agreement.

(ii) On 3 November 2017, the Group has acquired additional interests in Shenzhen Kangquan at an aggregate consideration of RMB6,800,000, of which amount of RMB5,440,000 was unsettled and remains in trade and other payable.

(iii) On 19 November 2018, the Company settled convertible bonds outstanding to Dundee by issuance of the Dundee Note at the same outstanding principal amount. Further details of the settlement are set out in note 32 to the consolidated financial statements.

(iv) During the year ended 31 December 2018, the Group disposed building held for own used located in the PRC with the amounts of approximately RMB8,168,000 in which the consideration was unsettled and remain in other receivables at the end of the reporting period.

(v) During the year ended 31 December 2018, the Company settled convertible bonds outstanding to Oriental (Asia) Investment Holdings Limited of approximately RMB294,011,000 in which amount of approximately RMB135,166,000 was settled against loan receivables due by Oriental (Asia) Investment Holdings Limited.

(vi) A final dividend in respect of the year ended 31 December 2017 of HKD5.0 cents per share, amount of approximately HK$99,986,000 (RMB87,988,000) was approved at the annual general meeting of the Company held on 13 June 2018. The dividend is not yet pay out by the Company at 31 December 2018 and was remain unsettled on the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at FVTPL	5,398	—
Financial assets at amortised costs	4,009,378	—
Loans and receivables (including cash and cash equivalents)	—	5,792,042
AFS financial assets	—	10,000
Financial liabilities		
Financial liabilities at amortised cost	2,482,569	2,821,085

The Group's major financial instruments include trade and other receivables, deposit paid for acquisition of property, plant and equipment, loans receivable, discounted bills receivable, bills receivables, AFS financial assets, financial assets at FVTPL, restricted cash, bank deposits with original maturities over three months, cash and cash equivalents, trade and other payables (exclude receipt in advance), borrowings, convertible bonds and bank advances on discounted bills receivables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk and market risks (interest rate risk, currency risk and other price risk). The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, loans receivable, bills receivable, restricted cash, bank deposit with original maturities over three months and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligation by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

Credit risk *(Continued)*

Deposit and other receivables

For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

Discounted bills receivable and bills receivable

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) individually for discounted bills receivable and bills receivable based on the amounts expected to be recoverable.

Restricted cash, bank deposit with original maturities over three months and bank balances

The credit risks on restricted cash, bank deposit with original maturities over three months and bank balances are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Trade receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

Credit risk *(Continued)*

Trade receivables *(Continued)*

Provision matrix — debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of RMB6,777,000 and RMB34,839,000 respectively at 31 December 2018 were assessed individually.

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Neither past due nor impaired	**0.36%**	**296,240**	**1,071**
Less than 1 month past due	**1.13%**	**12,373**	**139**
1 to 3 months past due	**0.47%**	**24,547**	**115**
3 to 12 months past due	**13.59%**	**3,130**	**425**
Over 12 months past due	**27.23%**	**299,010**	**81,424**
		635,300	**83,174**

During the year ended 31 December 2018, the Group recognised approximately RMB83,174,000 impairment of allowance for trade receivables, based on the provision matrix. Impairment allowance of approximately RMB36,491,000 was made on debtors with significant balances and credit-impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

Credit risk (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
At 31 December 2017 under HKAS 39	—	70,134	70,134
Adjustment upon application of HKFRS 9	—	—	—
At 1 January 2018 — as restated	—	70,134	70,134
Impairment losses recognised	83,174	36,491	119,665
Impairment losses reversed	(9,044)	(21,671)	(30,715)
Disposal of subsidiaries	—	(40,299)	(40,299)
At 31 December 2018	**74,130**	**44,655**	**118,785**

The following table shows the movement in ECL that has been recognised for deposit and other receivables, discounted bills receivable and bills receivable:

	12m ECL RMB'000	Lifetime ECL RMB'000	Total RMB'000
At 1 January 2018 upon application of HKFRS 9	—	—	—
Impairment losses recognised	6,457	6,336	12,793
At 31 December 2018	**6,457**	**6,336**	**12,793**

During the year ended 31 December 2018, amounts of approximately RMB12,007,000, RMB714,000 and RMB72,000 impairment allowance for deposit and other receivables, discounted bills receivable and bills receivable respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

Liquidity risk

The following table details the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest date the Group can be required to pay:

	At 31 December 2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Total carrying amount RMB'000
Trade and other payables	**919,997**	**—**	**—**	**—**	**919,997**	**919,997**
Borrowings	**1,354,403**	**203,337**	**—**	**—**	**1,557,740**	**1,392,251**
Bank advances on discounted bills receivable	**170,321**	**—**	**—**	**—**	**170,321**	**170,321**
	2,444,721	**203,337**	**—**	**—**	**2,648,058**	**2,482,569**

	At 31 December 2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Total carrying amount RMB'000
Trade and other payables	780,241	—	—	—	780,241	780,241
Borrowings	893,937	2,867	150,000	6,523	1,053,327	1,018,492
Convertible bonds	1,000,639	—	—	—	1,000,639	964,252
Bank advances on discounted bills receivable	58,100	—	—	—	58,100	58,100
	2,732,917	2,867	150,000	6,523	2,892,307	2,821,085

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

Market risk

(a) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings at both variable rates and fixed rates that expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group constantly monitors its borrowing portfolio to minimise its interest rate risk.

(i) Interest rate profile

The following table details the interest rate profile of the Group's financial instruments at the end of the reporting period:

	2018		2017	
	Interest rate %	RMB'000	Interest rate %	RMB'000
Variable rate deposits				
Cash and cash equivalents	0.00-0.13	70,731	0.001 — 0.30	204,420
Restricted cash	0.00-0.30	154,729	0.001 — 0.42	325,765
Structured deposits	—	—	1.68 — 2.91	905,000
Fixed rate deposits				
Bank deposits with original maturities over three months	—	—	1.85 — 2.10	1,040,985
Entrusted loans	12.00	50,000	12.00	280,000
Fixed rate borrowings				
Borrowings	0.00-13.00	1,330,651	0.00 — 13.00	990,823
Bank advances on discounted bills receivable	3.35-5.79	170,321	2.64 — 5.49	58,100
Convertible bonds	—	—	7.78 — 11.29	964,252
Variable rate borrowings				
Borrowings	9.25	61,600	1.38 — 4.57	27,669
Total borrowings		1,562,572		2,040,844
Fixed rate borrowings as a percentage of total borrowings		96.06%		98.64%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

Market risk *(Continued)*

(a) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's (loss)/profit for the year by approximately RMB2,843,000 (2017: RMB2,957,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit for the year that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk at the end of the reporting period.

(b) Currency risk

Renminbi is not freely convertible into foreign currencies in the PRC. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to conduct foreign exchange business. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

During the year, sales and purchases made by the Group's PRC subsidiaries were mainly denominated in Renminbi, which is their functional currency. These PRC subsidiaries did not have any significant financial assets or liabilities that are denominated in a currency other than their functional currency at 31 December 2018.

The functional currency of the Company and the Group's non-PRC subsidiaries is Hong Kong dollar. Management does not expect that there will be any significant currency risk associated with financial assets or liabilities denominated in currencies other than the functional currency of the Group to which they relate at 31 December 2018 (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

Market risk *(Continued)*

(c) Other price risk

The Group is exposed to other price risk through its investments in equity securities measured at FVTPL. For equity securities measured at FVTPL quoted in the Stock Exchange, the directors manage this exposure by maintaining a portfolio of investments with different risks. The management has monitored the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to other price risk at the end of the reporting period.

The sensitivity analyses have been determined based on the exposure to other price risk at the end of the reporting period. For sensitivity analysis of listed securities with fair value measurement categorised within Level 1, the sensitivity rate is increased to 5% in 2018 as a result of the volatile financial market.

If the prices of the respective equity instruments had been 5% higher/lower, the pre-tax loss for the year ended 31 December 2018 would increase/decrease by approximately RMB182,000 as a result of the changes in fair value of listed equity securities classified as FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

(Continued)

Fair value of financial instruments

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the directors at the end of each reporting period to explain the cause of fluctuations in fair value of the asset.

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are input for which market data are not available; and

- Level 3 valuations: fair value measured using significant unobservable inputs.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2018				
Fair value on a recurring basis				
Financial assets at FVTPL				
— Listed equity securities in Hong Kong	3,647	—	—	3,647
— Unlisted equity security outside Hong Kong	—	—	1,751	1,751
	3,647	—	1,751	5,398

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the date of the events or change in circumstances that caused the transfer.

During the year ended 31 December 2018, there were no transfers between level 1 and level 2, or transfers into or out of level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

46. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS *(Continued)*

Fair value of financial instruments *(Continued)*

The following table presents the changes in financial assets at FVTPL which are classified as Level 3 category for the year ended 31 December 2018:

	RMB'000
At 1 January 2017, at 31 December 2017 and at 1 January 2018	—
Fair value of investment retained arising in disposal of subsidiaries *(note 39)*	1,760
Loss arising on change in fair value of financial assets at FVTPL	(9)
At 31 December 2018	**1,751**

Information about Level 3 fair value measurements

	Valuation Techniques	Significant unobservable input	Relation of significant unobservable inputs to fair value
Unlisted equity security outside Hong Kong	Option pricing model	Volatility of discount for lack of marketability	The volatility of discount for lack of marketability is negatively correlated to the fair value measurement of unlisted equity security outside Hong Kong

In estimating the fair value of an asset, the management work closely with Peak Vision Appraisals Limited to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the directors at the end of each reporting period to explain the cause of fluctuations in fair value of the asset.

Information about the valuation techniques and inputs used in determining the above fair value are disclosed above.

Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and financial liabilities carried at cost or amortised cost were not materially different from their fair values at 31 December 2018 and 2017, except for the liability component of convertible bonds. The fair value of the liability component of convertible bonds is approximately RMB930,723,000 at 31 December 2017. The fair value of the liability component of convertible bonds is measured using discounted cash flows method in which all significant input is directly or indirectly based on observable market data which is under Level 2 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Dividend payable RMB'000	Interest payable RMB'000	Borrowings RMB'000	Convertible bonds RMB'000	Total RMB'000
At 1 January 2017	—	9,090	1,299,731	948,356	2,257,177
Financing cash flows	(42,219)	(105,193)	(399,471)	—	(546,883)
Dividend declared	42,219	—	—	—	42,219
Interest expenses	—	113,770	—	80,741	194,511
Acquisition through business combination	—	—	150,000	—	150,000
Foreign exchange translation	—	—	(31,768)	(64,845)	(96,613)
At 31 December 2017 and at 1 January 2018	—	17,667	1,018,492	964,252	2,000,411
Financing cash flows	—	(52,941)	(509,367)	(100,080)	(662,388)
Settled against with loan receivables	—	—	—	(133,649)	(133,649)
Transfer to promissory notes	—	—	764,636	(764,636)	—
Purchase of property, plant and equipment	—	—	59,057	—	59,057
Dividend declared	83,388	—	—	—	83,388
Interest expenses	—	182,549	—	36,304	218,853
Foreign exchange translation	4,600	8,080	59,433	(2,191)	69,922
At 31 December 2018	87,988	155,355	1,392,251	—	1,635,594

48. EVENTS AFTER THE REPORTING PERIOD

On 29 March 2019, the Company has completed the placing of 30,182,000 new shares of HK$0.01 each to no fewer than six independent placees at placing price of HK$0.48 per share (the "Placing"). The net proceeds of approximately HK$14,000,000, after deduction of the related commission, costs and expenses, will be used for the purposes of future business development and general working capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Renminbi unless otherwise indicated)

49. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the disclosure requirements in respect of the discontinued operation set out in note 10 to the consolidated financial statements.

The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2 to the consolidated financial statements.

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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