



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

2019

INTERIM REPORT


THE FUTURE of new retail





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COMPANY PROFILE

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

As at 30 June 2019, the Company had over 100 subsidiaries (collectively referred to as the “**Group**” or “**we**”) and had opened more than 1,500 independently operated outlets and franchised outlets in 22 provinces and 4 municipalities over China. Since its establishment, the Group has been focusing on the sales of mobile telecommunication devices and the provision of related services. With its extensive offline sales channels and online sales platform, the Group provides comprehensive services to consumers, ranging from the sales of mobile phone hardware and accessories, provision of value-added services for software, and provision of personalized services for mobile phones and aftersales services. To better adapt to the development environment of the retail industry under the new market situation at home and abroad, the Group has steadily launched new retail business, diversified merchandise sales business and overseas business through multi-channel operation system and multi-dimensional service model in recent years, so as to consolidate market competitiveness and brand influence.

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Qi Xiangdong
Ms. Xin Xin

Independent Non-executive Directors

Mr. Lv Tingjie
Mr. Lv Pingbo *Note*
Mr. Zhang Senquan

SUPERVISORS

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

JOINT COMPANY SECRETARIES

Ms. Li Dongmei
Ms. Lam Yuk Ling

AUTHORIZED REPRESENTATIVES

Mr. Liu Yajun
Ms. Li Dongmei

AUDIT COMMITTEE

Mr. Zhang Senquan (*Chairman*)
Mr. Lv Tingjie
Mr. Lv Pingbo *Note*

NOMINATION COMMITTEE

Mr. Lv Tingjie (*Chairman*)
Mr. Liu Songshan
Mr. Lv Pingbo *Note*

REMUNERATION AND ASSESSMENT COMMITTEE

Mr. Lv Pingbo (*Chairman*) *Note*
Ms. Xin Xin
Mr. Zhang Senquan

STRATEGY COMMITTEE

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

REGISTERED OFFICE

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

HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

Note: Mr. Lv Pingbo was appointed as the independent non-executive Director of the Company on 5 June 2019, and replaced Mr. Bian Yongzhuang as the chairman of Remuneration and Assessment Committee, member of Audit Committee and member of Nomination Committee of the Company. Mr. Bian Yongzhuang has tendered his resignation of the aforesaid positions on the same day.

CORPORATE INFORMATION *(Continued)*

H SHARE REGISTRAR

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

LEGAL ADVISERS

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

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

AUDITOR

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

STOCK CODE

6188

COMPANY'S WEBSITE

www.dixintong.com

PRINCIPAL BANKERS

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

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

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

Hang Seng Bank (China) Limited
(Beijing Branch)
18th Floor, South Office Tower
Beijing Kerry Centre, 1 Guanghua Road
Chaoyang District
Beijing
PRC

Bank of China Limited
(Beijing BOC Tower Branch)
1 Fuxingmennei Street
Beijing
PRC

Bank of Beijing Co., Ltd.
(Headquarters Base Branch)
No. 15, Block 17, 188 Nansihuan Xi Road
Fengtai District
Beijing
PRC

FINANCIAL HIGHLIGHTS

Items	For the first half ended 30 June	
	2019 RMB'000	2018 RMB'000
Consolidated Statement of Profit or Loss		
Continuing Operations		
Revenue	7,265,420	7,571,478
Gross profit	843,579	982,186
Profit for the period from continuing operations	124,857	154,615
Discontinued operation		
Profit for the period from a discontinued operation	—	1,847
Profit for the period	124,857	156,462
Attributable to:		
Owners of the parent	137,814	152,655
Non-controlling interests	(12,957)	3,807
	124,857	156,462
Earning per share attributable to ordinary equity holders of the parent		
– Basic and diluted (RMB/share)	0.21	0.23
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(1,150)	1,148
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	123,707	157,610
Attributable to:		
Owners of the parent	136,798	153,372
Non-controlling interests	(13,091)	4,238

FINANCIAL HIGHLIGHTS (Continued)

	30 June 2019 RMB'000	31 December 2018 RMB'000
Consolidated Balance Sheet		
Non-current assets	977,675	421,386
Current assets	8,529,742	7,658,717
Total assets	9,507,417	8,080,103
Current liabilities	5,225,230	4,246,398
Total assets less current liabilities	4,282,187	3,833,705
Non-current liabilities	322,661	—
Net assets	3,959,526	3,833,705
Share capital	666,667	666,667
Reserve	3,230,461	3,093,663
Equity attributable to owners of the parent	3,897,128	3,760,330
Non-controlling interests	62,398	73,375
For the first half ended 30 June		
	2019 RMB'000	2018 RMB'000
Consolidated Statement of Cash Flow		
Net cash flows used in operating activities	(162,171)	(121,381)
Net cash flows from investment activities	53,774	134,520
Net cash flows used in financing activities	(81,744)	(43,107)
Net decrease in cash and cash equivalents	(190,141)	(29,968)
Cash and cash equivalents at the beginning of the period	708,548	614,879
Effect of foreign exchange rate changes	32	30
Cash and cash equivalents at the end of the period	518,439	584,941

MANAGEMENT DISCUSSION & ANALYSIS

I. BUSINESS REVIEW

For the six months ended 30 June 2019, the Group sold 4,530,120 mobile handsets, representing a decrease of 410,740 sets or 8.31% compared with 4,940,860 sets for the same period in 2018. Operating revenue for the first half of 2019 amounted to RMB7,265,420,290, representing a decrease of RMB306,058,080 or 4.04% from RMB7,571,478,370 for the same period in 2018. For the first half of 2019, net profit attributable to equity owners of the Company for the period amounted to RMB137,814,300, representing a decrease of RMB14,840,200 or 9.72% from RMB152,654,500 for the same period in 2018.

II. FINANCIAL POSITION AND OPERATING RESULTS

(I) Overview

For the six months ended 30 June 2019, the Group recognised net profit of RMB124,857,370, representing a decrease of RMB31,604,130 or 20.20% from RMB156,461,500 for the same period in 2018. In particular, net profit attributable to equity owners of the Company for the period amounted to RMB137,814,300, representing a decrease of RMB14,840,200 or 9.72% from RMB152,654,500 for the same period in 2018.

(II) Consolidated comprehensive income statement

The following table sets forth selected items in our consolidated comprehensive income statement for the periods indicated. Our operating results have fluctuated in the past and may continue to fluctuate in future. Hence, direct comparison of our operating results for different periods may not be appropriate, and our past performance may not be a reliable indicator of our future operating results.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Items	For the six months ended 30 June			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Operating revenue	7,265,420.29	7,571,478.37	(306,058.08)	(4.04%)
Operating costs	(6,421,841.46)	(6,589,292.64)	167,451.18	(2.54%)
Gross profit	843,578.83	982,185.73	(138,606.90)	(14.11%)
Other income and gains	40,748.19	51,311.71	(10,563.52)	(20.59%)
Selling and distribution expenses	(401,872.59)	(531,949.74)	130,077.15	(24.45%)
Administrative expenses	(143,933.84)	(169,635.86)	25,702.02	(15.15%)
Impairment losses on financial assets	(32,543.65)	(15,333.25)	(17,210.40)	112.24%
Other expenses	(29,789.10)	(23,660.31)	(6,128.79)	25.90%
Finance costs	(120,247.50)	(96,406.26)	(23,841.24)	24.73%
Investment gains	(2,527.19)	(3,802.28)	1,275.09	(33.53%)
Profit before tax	153,413.15	192,709.74	(39,296.59)	(20.39%)
Income tax expense	(28,555.78)	(38,095.25)	9,539.47	(25.04%)
CONTINUING OPERATIONS				
Profit for the period from continuing operations	124,857.37	154,614.49	(29,757.12)	(19.25%)
DISCONTINUED OPERATIONS				
Profit for the period from discontinued operations	—	1,847.01	(1,847.01)	(100.00%)
PROFIT FOR THE PERIOD	124,857.37	156,461.50	(31,604.13)	(20.20%)
The parent company	137,814.30	152,654.50	(14,840.20)	(9.72%)
Minority interests	(12,956.93)	3,807.00	(16,763.93)	(440.34%)

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

1. Operating revenue

For the six months ended 30 June 2019, operating revenue of the Group amounted to RMB7,265,420,290, representing a decrease of RMB306,058,080 or 4.04% from the operating revenue of RMB7,571,478,370 for the same period in 2018. Revenue decreased mainly for two reasons: first was a decrease in revenue from retail which was due to the decrease in the number of our independent stores and store-in-store outlets; and second was the reduction in service income from carriers. Our sales of mobile telecommunications devices and accessories include (i) sales in our retail business; (ii) sales in our franchise business; and (iii) sales in our wholesale business. Revenue from our retail business includes revenue from sales of mobile telecommunications devices and accessories in our independent stores, store-in-store outlets, stores in cooperation with the mobile carriers, and online sales platforms. Revenue from our franchise business includes revenue from sales of mobile telecommunications devices and accessories to our franchisees. Revenue from our wholesale business includes revenue from sales of mobile telecommunications devices and accessories distributed to mobile carriers and other third-party retailers.

The following table sets forth information relating to our operating revenue for the periods indicated:

Items	For the six months ended 30 June					Percentage of change
	2019		2018		Change	
	RMB'000	% of total revenue	RMB'000	% of total revenue		
Revenue form continuing operations						
Sales of mobile telecommunications devices and accessories	7,036,106.36	96.84%	7,224,031.66	94.39%	(187,925.30)	(2.60%)
Including: Sales from retail of mobile telecommunications devices and accessories	3,623,864.33	49.88%	3,838,884.19	50.16%	(215,019.86)	(5.60%)
Sales of telecommunications devices and accessories to franchisees	1,382,630.66	19.02%	1,412,092.97	18.45%	(29,462.31)	(2.09%)
Wholesale of mobile telecommunications devices and accessories	2,029,611.37	27.94%	1,973,054.50	25.78%	56,556.87	2.87%
Service income from mobile carriers	181,477.85	2.50%	296,253.34	3.87%	(114,775.49)	(38.74%)
Other service fee income	47,836.08	0.66%	51,193.37	0.67%	(3,357.29)	(6.56%)
Subtotal	7,265,420.29	100%	7,571,478.37	98.93%	(306,058.08)	(4.04%)
Revenue from discontinued operations						
Revenue from the sales of properties	–	–	82,283.85	1.07%	(82,283.85)	(100.00%)
Total	7,265,420.29	100%	7,653,762.22	100.00%	(388,341.93)	(5.07%)

The Group's service income from mobile carriers amounted to RMB181,477,850 for the six months ended 30 June 2019, representing a decrease of RMB114,775,490 or 38.74% compared with the service income from mobile carriers of RMB296,253,340 for the same period in 2018. Decrease in the service income from mobile carriers was attributable to a decrease in subsidies granted to retail channel from three major carriers in 2019.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

The following table sets forth our service income from each of the major mobile carriers for the first half of 2019 and the first half of 2018:

Items	For the six months ended 30 June					Percentage of change
	2019		2018		Change	
	RMB'000	% of total revenue	RMB'000	% of total revenue		
China Mobile	83,731.65	46.14%	107,325.30	36.23%	(23,593.65)	(21.98%)
China Unicom	17,427.30	9.60%	20,227.63	6.83%	(2,800.33)	(13.84%)
China Telecom	80,141.61	44.16%	168,661.13	56.93%	(88,519.52)	(52.48%)
Virtual Operator	177.29	0.10%	–	–	177.29	–
Dixintong Telecommunications Services	–	–	39.28	0.01%	(39.28)	(100.00%)
Total	181,477.85	100.00%	296,253.34	100.00%	(114,775.49)	(38.74%)

“Dixintong Telecommunications Services” refers to Beijing Dphone Communication Services Co., Ltd. (北京迪信通通信服務有限公司), our related party. For details of related party transactions, please refer to “(V) Related party transactions” in this section.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

2. Operating costs

For the six months ended 30 June 2019, the Group's operating costs amounted to RMB6,421,841,460, representing a decrease of RMB167,451,180 or 2.54% from the operating costs of RMB6,589,292,640 for the same period in 2018, which was mainly due to the decrease in operating revenue.

The following table sets forth information relating to our operating costs for the periods indicated:

Items	For the six months ended 30 June					Percentage of change
	2019		2018		Change	
	RMB'000	% of total revenue	RMB'000	% of total revenue		
Cost of continuing operations						
Sales of mobile telecommunications devices and accessories	6,400,071.20	99.66%	6,558,015.69	98.37%	(157,944.49)	(2.41%)
Including: Sales from retail of mobile telecommunications devices and accessories	3,086,590.55	48.06%	3,286,680.39	49.30%	(200,089.84)	(6.09%)
Sales of telecommunications devices and accessories to franchisees	1,343,297.86	20.92%	1,364,536.43	20.47%	(21,238.57)	(1.56%)
Wholesale of mobile telecommunications devices and accessories	1,970,182.79	30.68%	1,906,798.87	28.60%	63,383.92	3.32%
Service income from mobile carriers	19,234.06	0.30%	29,944.57	0.45%	(10,710.51)	(35.77%)
Other service fee income	2,536.20	0.04%	1,332.38	0.02%	1,203.82	90.35%
Subtotal	6,421,841.46	100.00%	6,589,292.64	98.84%	(167,451.18)	(2.54%)
Cost of discontinued operations						
Cost of the sales of properties	–	–	77,366.61	1.16%	(77,366.61)	(100.00%)
Total	6,421,841.46	100.00%	6,666,659.25	100.00%	(244,817.79)	(3.67%)

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

3. Gross profit and gross profit margin

Gross profit represents operating revenue net of operating costs. The Group's gross profit for the six months ended 30 June 2019 amounted to RMB843,578,830, representing a decrease of RMB138,606,900 or 14.11%, from the gross profit of RMB982,185,730 for the same period in 2018. Our overall gross profit margin for the six months ended 30 June 2019 and 2018 were 11.61% and 12.90%, respectively. Overall gross profit margin was basically the same as that for the previous period.

Items	For the six months ended 30 June							
	2019			2018				
	RMB'000	% of total gross profit	Gross profit margin	RMB'000	% of total gross profit	Gross profit margin	Change RMB'000	Percentage of change
Gross profit from continuing operations								
Sales of mobile telecommunications devices and accessories	636,035.16	75.40%	9.04%	666,015.97	67.47%	9.22%	(29,980.81)	(4.50%)
Including: Sales from retail of mobile telecommunications devices and accessories	537,273.78	63.70%	14.83%	552,203.80	55.94%	14.38%	(14,930.02)	(2.70%)
Sales of telecommunications devices and accessories to franchisees	39,332.80	4.66%	2.84%	47,556.54	4.82%	3.37%	(8,223.74)	(17.29%)
Wholesale of mobile telecommunications devices and accessories	59,428.58	7.04%	2.93%	66,255.63	6.71%	3.36%	(6,827.05)	(10.30%)
Service income from mobile carriers	162,243.79	19.23%	89.40%	266,308.77	26.98%	89.89%	(104,064.98)	(39.08%)
Other service fee income	45,299.88	5.37%	94.70%	49,860.99	5.05%	97.40%	(4,561.11)	(9.15%)
Subtotal	843,578.83	100.00%	11.61%	982,185.73	99.50%	12.97%	(138,606.90)	(14.11%)
Gross profit from discontinued operations								
Gross profit from the sales of properties	–	–	–	4,917.24	0.50%	5.98%	(4,917.24)	(100.00%)
Total	843,578.83	100.00%	11.61%	987,102.97	100.00%	12.90%	(143,524.14)	(14.54%)

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

4. Sales volume and average selling price of mobile handsets

The following table sets forth information about our sales, sales volume and average selling price of mobile handsets for the periods indicated:

Items	For the six months ended 30 June			Percentage of change
	2019	2018	Change	
Sales of mobile handsets (in RMB thousands)	6,763,089.53	6,827,889.00	(64,799.47)	(0.95%)
Sales volume of mobile handsets (in sets)	4,530,122.00	4,940,863.00	(410,741.00)	(8.31%)
Average selling price (RMB/per set)	1,492.92	1,381.92	111.00	8.03%

5. Other income and gains

Other income and gains include: (i) interest income; (ii) government grants; and (iii) others. The Group's other income and gains for the six months ended 30 June 2019 amounted to RMB40,748,190, representing a decrease of RMB10,563,520 or 20.59% from other income and gains of RMB51,311,710 for the same period in 2018. The decrease in other income and gains was mainly attributable to the decrease in interest income generated from the external loan receivables and pledged bank deposits for the first half of 2019.

The following table sets forth information relating to our other income and gains for the periods indicated:

Items	For the six months ended 30 June			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Interest income	8,095.07	26,231.28	(18,136.21)	(69.14%)
Government grants	23,226.41	22,940.77	285.64	1.25%
Others	9,426.71	2,139.66	7,287.05	340.57%
Total	40,748.19	51,311.71	(10,563.52)	(20.59%)

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

6. Selling and distribution expenses

Items	For the six months ended 30 June					
	Selling and distribution expenses		% of total expenses		Change	Percentage of change
	2019	2018	2019	2018		
	RMB'000	RMB'000			RMB'000	
Staff salaries	181,906.53	220,384.68	45.26%	41.43%	(38,478.15)	(17.46%)
Office expenses	5,487.00	5,991.10	1.37%	1.13%	(504.10)	(8.41%)
Travelling expenses	3,199.13	3,467.79	0.80%	0.65%	(268.66)	(7.75%)
Transportation expenses	7,361.51	8,036.87	1.83%	1.51%	(675.36)	(8.40%)
Business entertainment expenses	1,346.85	1,800.96	0.34%	0.34%	(454.11)	(25.22%)
Communication expenses	1,579.74	1,718.55	0.39%	0.32%	(138.81)	(8.08%)
Rentals and property management expenses	135,927.72	183,967.47	33.82%	34.58%	(48,039.75)	(26.11%)
Repair expenses	2,360.86	2,525.97	0.59%	0.47%	(165.11)	(6.54%)
Advertising and promotion expenses	19,533.61	41,010.63	4.86%	7.71%	(21,477.02)	(52.37%)
Depreciation expenses	3,189.94	3,595.07	0.79%	0.68%	(405.13)	(11.27%)
Amortisation of long-term deferred expenses	18,614.80	21,487.36	4.63%	4.04%	(2,872.56)	(13.37%)
Amortisation of low-cost consumables	1,428.25	1,570.52	0.36%	0.30%	(142.27)	(9.06%)
Market management fees	4,397.24	10,120.30	1.09%	1.90%	(5,723.06)	(56.55%)
Utilities	11,068.03	15,480.66	2.75%	2.91%	(4,412.63)	(28.50%)
Others	4,471.38	10,791.81	1.11%	2.03%	(6,320.43)	(58.57%)
Total	401,872.59	531,949.74	100.00%	100.00%	(130,077.15)	(24.45%)

Total selling and distribution expenses of the Group for the six months ended 30 June 2019 amounted to RMB401,872,590, representing a decrease of RMB130,077,150 or 24.45% from the total selling and distribution expenses of RMB531,949,740 for the same period in 2018, which was mainly due to comprehensive impact of the decreases in rentals and property management expenses and market management fees as well as the decrease in staff number and total amount of staff salaries.

Total rentals and property management expenses for the six months ended 30 June 2019 amounted to RMB135,927,720, representing a decrease of RMB48,039,750, or 26.11% from the total rentals and property management expenses of RMB183,967,470 for the same period in 2018. Such decrease was mainly due to the decrease in the number of self-owned stores and store-in-store outlets, and the effort of the Company in actively seeking rental reduction from the landlords.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Total market management fees for the six months ended 30 June 2019 amounted to RMB4,397,240, representing a decrease of RMB5,723,060 or 56.55% from total market management fees of RMB10,120,300 for the same period in 2018. Such decrease was mainly due to the reduction in marketing promotion activities.

Total staff salaries for the six months ended 30 June 2019 amounted to RMB181,906,530, representing a decrease of RMB38,478,150 or 17.46% from total staff salaries of RMB220,384,680 for the same period in 2018. Such decrease was mainly due to the streamlining of the staffing structure of the Group during the current period for saving expenses as well as the decrease in number of stores and salespersons.

7. Administrative expenses

Items	For the six months ended 30 June					
	Administrative expenses		% of total expenses		Change	Percentage of change
	2019	2018	2019	2018		
	RMB'000	RMB'000			RMB'000	
Staff salaries	65,530.63	70,385.74	45.53%	41.76%	(5,305.11)	(7.49%)
Tax expenses	2.16	333.78	0.00%	0.20%	(331.62)	(99.35%)
Office expenses	3,363.32	4,151.35	2.34%	2.45%	(788.03)	(18.98%)
Depreciation expenses	4,823.37	4,896.77	3.35%	2.89%	(73.04)	(1.50%)
Amortisation of intangible assets	435.12	193.74	0.30%	0.11%	241.38	124.59%
Amortisation of long-term deferred expenses	575.30	667.72	0.40%	0.39%	(92.42)	(13.84%)
Amortisation of low-cost consumables	1,913.29	2,101.59	1.33%	1.24%	(188.30)	(8.96%)
Travelling expenses	4,309.94	6,562.71	2.99%	3.87%	(2,252.77)	(34.33%)
Rental and property management fees	6,060.35	6,199.26	4.21%	3.65%	(138.91)	(2.24%)
Business entertainment expenses	3,339.59	3,528.57	2.32%	2.08%	(188.98)	(5.36%)
Communication expenses	1,721.84	1,901.41	1.20%	1.12%	(179.57)	(9.44%)
Agency fees	9,232.52	6,518.83	6.41%	3.84%	2,713.69	41.63%
Transportation expenses	4,961.83	6,615.32	3.45%	3.90%	(1,653.49)	(24.99%)
Financial institution charges	32,458.79	46,061.29	22.55%	27.15%	(13,602.50)	(29.53%)
Others	5,205.79	9,067.78	3.62%	5.35%	(3,861.99)	(42.59%)
Total	143,933.84	169,635.86	100.00%	100.00%	(25,702.02)	(15.15%)

The Group's total administrative expenses for the six months ended 30 June 2019 amounted to RMB143,933,840, representing a decrease of RMB25,702,020 or 15.15% from RMB169,635,860 for the same period in 2018. Such decrease in administrative expenses was primarily attributable to the comprehensive impact of the significant decrease in financial institution charges and the decrease in amount of staff salaries.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Total financial institution charges for the six months ended 30 June 2019 amounted to RMB32,458,790, representing a decrease of RMB13,602,500 or 29.53% from RMB46,061,290 for the same period in 2018. Such decrease was mainly attributable to the decrease in instalment business and handling fees of that business.

For the six months ended 30 June 2019, total amount of staff salaries amounted to RMB65,530,630, representing a decrease of RMB5,305,110 or 7.49% from RMB70,835,740 for the same period in 2018. Such decrease was mainly attributable to the implementation of financial sharing system of the Group, resulting in the decrease in number of financial personnel.

8. Finance costs

Item	For the six months ended 30 June			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Finance costs – interest expenses	120,247.50	96,406.26	23,841.24	24.73%

The Group's total finance costs for the six months ended 30 June 2019 amounted to RMB120,247,500, representing an increase of RMB23,841,240, or 24.73% from RMB96,406,260 for the same period in 2018. Such increase in finance costs was primarily attributable to the significant increase in interest expenses as compared with the same period of last year, resulting from the increase in the corporate borrowings of the Group in 2019.

9. Other expenses

Our other expenses include impairment losses on assets, non-operating expenses, exchange loss and investment loss. For the six months ended 30 June 2018 and 2019, our other expenses amounted to RMB23,660,310 and RMB29,789,100, respectively.

Items	For the six months ended 30 June			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Impairment losses on assets	25,026.34	21,099.92	3,926.42	18.61%
Non-operating expenses	1,752.93	1,521.36	231.57	15.22%
Exchange loss	146.08	1,039.03	(892.95)	(85.94%)
Investment loss	2,863.75	0.00	2,863.75	100.00%
Total	29,789.10	23,660.31	6,128.79	25.90%

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

10. Income tax expenses

Our income tax expenses for the stated periods included PRC Corporate Income Tax and deferred income tax during the year. The following table sets forth information relating to our income tax expenses for the periods indicated:

Items	For the six months ended 30 June			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Current tax:				
Income tax in the PRC for the year	35,067.74	42,402.26	(7,334.52)	(17.30%)
Deferred tax	(6,511.96)	(4,307.01)	(2,204.95)	51.19%
Total	28,555.78	38,095.25	(9,539.47)	(25.04%)

For the six months ended 30 June 2019, the Group's total income tax amounted to RMB28,555,780, representing a decrease of RMB9,539,470 or 25.04% as compared with RMB38,095,250 for the same period in 2018. Such decrease was primarily attributable to the decrease of profit before tax, resulting in a decrease of income tax during the current period.

11. Indebtedness – bank and other borrowings

As of 30 June 2019, our bank borrowings were primarily short term in nature, repayable within one year, and corporate bonds and other borrowings repayable within one year. The following table sets forth our outstanding borrowings as at the dates indicated:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Current		
Bank loans:		
Unsecured, repayable within one year	1,031,965.81	950,500.00
Secured, repayable within one year	1,923,540.00	1,411,990.00
Corporate bond:		
Current portion	575,981.39	598,013.00
Other loan:		
Unsecured, repayable within one year	65,103.23	71,551.00
Secured, repayable within one year	–	34,584.00
Total	3,596,590.43	3,066,638.00

As of 30 June 2019, we entered into various loan agreements with banks to finance our business operations and expansion. These bank loans were repayable within one year or on demand. These bank loans were bank loans which carried interest at the benchmark rate of the People's Bank of China plus a premium. We mainly used these bank loans to purchase mobile telecommunications devices and accessories.

As of 30 June 2019, our bank and other borrowings amounted to RMB3,596,590,430, representing an increase of RMB529,952,430 or 17.28% from RMB3,066,638,000 as of 31 December 2018. Such increase was primarily due to the preparation for stocks of new products by the Company, including 5G products for the second half of the year, which resulted in a greater demand for financing.

We are subject to certain customary restrictive covenants pursuant to our loan agreements with the banks. Subject to certain exceptions and waivers, these covenants may restrict our ability to (i) incur additional indebtedness; (ii) make major change to our corporate structure, such as to undertake or encourage joint venture, mergers and acquisitions, reduction of registered share capital and reorganisation or to make other changes such as liquidation or dissolution; (iii) sell, transfer or dispose of material assets; and (iv) make investments and engage in certain transactions with affiliates or subsidiaries.

On 5 April 2017, we issued a corporate bond with a term of three years in total principal of RMB600,000,000 at an annual interest rate of 7.50%. Interest will be paid in arrears each year. The mature date is 5 April 2020.

The directors of the Company (the “**Directors**”) confirmed that as of 30 June 2019 and up to the date of this report, we did not have any material default in payment of trade and non-trade payables and bank borrowings, nor did we breach any financial covenants. Save as disclosed herein, the agreements under our bank borrowings do not contain any covenant that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. We did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of 30 June 2019.

(III) Current assets and financial position

As of 30 June 2019, the Group had cash and cash equivalents in an amount of RMB518,439,140, representing a decrease of RMB190,108,560 or 26.83% as compared to RMB708,547,700 as of 31 December 2018.

As of 30 June 2019, the Group had bank and other borrowings in an amount of RMB3,596,590,430, representing an increase of RMB529,952,430 or 17.28% as compared to RMB3,066,638,000 as of 31 December 2018.

(IV) Capital expenditure

For the six months ended 30 June 2019, the Group's capital expenditure amounted to RMB22,596,010, which primarily included costs in relation to purchase and construction of fixed assets and decoration costs in connection with the opening of new outlets and the renovation of old ones.

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

(V) Related party transactions

The following table sets forth the total amounts of transactions that were entered into with related parties during the six months ended 30 June 2019 and 30 June 2018 and the balance with the related parties as of 30 June 2019 and 31 December 2018:

		Sales to related parties ⁽ⁱ⁾ RMB'000	Purchases from related parties ⁽ⁱ⁾ RMB'000	Other transactions with related parties RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Controlling shareholder:						
Digital Science & Technology Group Limited	2019	—	—	—	—	—
	2018	—	—	—	35,000	—
Associates:						
Shenzhen Dixin Nuclear Communication Co., Ltd. ¹	2019	—	—	—	507	—
	2018	—	—	—	507	—
Beijing Xinyi Technology Co., Ltd. ¹⁰	2019	—	—	—	—	—
	2018	133	708	—	10,964	11
Shanghai Diju Information Technology Co., Ltd. ²	2019	—	20,893	—	—	2,157
	2018	—	17,716	—	—	—
Comservice Commercial Factoring Co., Ltd. ⁹	2019	—	—	57,652	—	18,315
	2018	—	—	—	—	—
Companies significantly influenced by the controlling shareholders						
Beijing Tianxingyuanjing Technology Co., Ltd. ³	2019	—	—	—	21	—
	2018	211	—	—	688	—
Luzhou Digital Science & Technology Co., Ltd. ⁴	2019	13	—	—	—	—
	2018	—	—	—	—	—
Joint ventures:						
Hollard-D.Phone (Beijing) Technology Development Co., Ltd. ⁵	2019	—	8,975	—	—	9,498
	2018	—	11,496	—	—	3,950
Guangzhou Zhongqi Energy Technology Limited Company ⁵	2019	26,228	8,549	—	60,920	—
	2018	41,846	7,351	—	55,620	—
Yunnan Dphone Investment Co., Ltd. ⁶	2019	214	—	—	—	—
	2018	—	—	—	—	—
Fellow subsidiaries:						
Beijing Dphone Communication Services Co., Ltd. ⁷	2019	—	30	—	10,793	104
	2018	1,601	—	—	10,653	292
Guang'an Dixin Cloud Communication Technology Co., Ltd. ⁷	2019	251	—	—	572	—
	2018	106	—	—	276	—
Fushun Shenshang Commercial Real Estate Co., Ltd. ⁷	2019	—	—	—	—	—
	2018	—	—	—	90,000	—
Gansu Dixin Cloud Communication Technology Co., Ltd. ⁷	2019	—	—	—	10,439	—
	2018	—	—	—	—	—
Fellow subsidiary of non-controlling shareholder:						
Beijing Digital China Limited ⁸	2019	—	7	—	1	—
	2018	—	—	—	3	—

MANAGEMENT DISCUSSION & ANALYSIS (Continued)

Notes:

- 1 *The investment in the associate, Shenzhen Dixin Nuclear Communications Co., Ltd. is directly held by the Company.*
- 2 *The investment in the associate, Shanghai Diju Information Technology Co., Ltd. is directly held by Shanghai Chuanda Communication Technology Co., Ltd. which is a subsidiary of the Group.*
- 3 *The investment in the entity, Beijing Tianxingyuanjing Technology Co., Ltd. is respectively held by Mr. Liu Donghai, the controlling shareholder of the Company, and Mr. Jin Xin, the former CEO. They directly and indirectly hold 20.53% equity interests aggregately and have significant influence over the entity.*
- 4 *40% of equity interests in Luzhou Digital Science & Technology Co., Ltd. are held by the controlling shareholders of the Company.*
- 5 *The investments in the joint venture entities, Hollard-D.Phone (Beijing) Technology Development Co., Ltd. and Guangzhou Zhongqi Energy Technology Limited Company are directly held by the Company.*
- 6 *The investment in the joint venture, Yunnan Dphone Investment Co., Ltd. is indirectly held by the Company.*
- 7 *The investments in the fellow subsidiaries, Beijing Dphone Communication Services Co., Ltd., Guang'an Dixin Cloud Communication Technology Co., Ltd., Fushun Shenshang Commercial Real Estate Co., Ltd. and Gansu Dixin Cloud Communication Technology Co., Ltd. are directly held by the controlling shareholders of the Company.*
- 8 *Beijing Digital China Limited and the non-controlling shareholder of the Company, Digital China (HK) Limited, are all controlled by Digital China Group Co., Ltd.. Digital China (HK) Limited holds 23.75% equity interests of the Company.*
- 9 *The Group entered into trade receivable factoring arrangement and transferred certain trade receivables to Comservice Commercial Factoring Co., Ltd.. The secured other loans bear interest at a rate ranging from 10.95% to 11% and are secured by trade receivables amounting to RMB26,181,310.*
- 10 *In May 2019, the Company disposed of its long-term equity investments in Beijing Xinyi Technology Co., Ltd..*

The board of directors of the Company (the “**Board**”) is of the opinion that such related party transactions were based on normal commercial terms and conducted on an arm’s length basis.

(VI) Key financial ratio

The following table sets out our current ratio, debt-to-equity ratio and gearing ratio as of the dates indicated:

Items	As at 30 June 2019	As at 31 December 2018	Change	Percentage of change
Current ratio	1.63	1.80	(0.17)	(9.44%)
Gearing ratio	47.79%	38.08%	9.71%	25.50%
Net debt-to-equity ratio	91.54%	61.51%	30.03%	48.82%

Current ratio is calculated by our current assets divided by our current liabilities at the end of each financial period. Our current ratio was 1.63 as of 30 June 2019, representing a decrease of 0.17 or 9.44% as compared to the current ratio of 1.80 as of 31 December 2018. Such decrease was mainly attributable to the increase in current liabilities resulting from the increases in short-term borrowings and balances of lease liabilities due within one year recognized in accordance with the new lease standard adopted by the Group during the current period.

Gearing ratio is calculated based on net debt divided by the sum of net debt plus total equity as of the end of each financial period and multiplied by 100%. Net debt includes interest-bearing bank loans and other borrowings, and lease liabilities less cash and cash equivalents. As of 30 June 2019, our gearing ratio increased by 9.71 percentage points to 47.79% from the gearing ratio of 38.08% as of 31 December 2018, representing an increase of 25.50%, which was primary attributable to the increase in amounts of interest-bearing bank and other borrowings as well as the increase in balances of lease liabilities recognized in accordance with the new lease standard adopted by the Group during the current period.

Net debt-to-equity ratio equals to net debt divided by total equity as of the end of the period and multiplied by 100%. Our net debt-to-equity ratio increased by 30.03 percentage points from 61.51% as at 31 December 2018 to the net debt-to-equity ratio of 91.54% as at 30 June 2019, representing an increase of 48.82%. Such increase was mainly attributable to the increases in interest bearing short-term borrowings and balances of lease liabilities recognized in accordance with the new lease standard adopted by the Group during the current period.

(VII) Material acquisitions and disposals

Details of the Group's material acquisitions during the six months ended 30 June 2019 are set out in the section headed "(XII) Material investments".

(VIII) Contingent liabilities

As of 30 June 2019, the Group had no material contingent liabilities.

(IX) Use of proceeds

In 2014, we had completed the global public offering of 166,667,000 H shares in Hong Kong at an offer price of HK\$5.30 per share, raising proceeds with an aggregate amount of HK\$883,335,100 which had been placed in a special account.

The following table sets forth details of the proceeds in the special account as of 30 June 2019:

Account holder	Banker	Account number	Balance HK\$'000
Beijing Digital Telecom Co., Ltd.	Standard Chartered Bank (Hong Kong) Limited	44717867377	3,003.54

As of 30 June 2019, HK\$880,331,560 out of the net proceeds had been utilised. As of 30 June 2019, the balance of the proceeds in the special account amounted to HK\$3,003,540 (including accrued interest of HK\$11,510).

To regulate the management of proceeds of the Company and protect investors' interests, the Company has formulated the "Regulations for the Management of Proceeds of Beijing Digital Telecom Co., Ltd." to set out specific provisions for the deposit, utilisation, management of fund application and supervision of use.

In accordance with the plan for the public offering of shares, proceeds from the public offering of shares was applied as to approximately 54% in the expansion of our retail and distribution network, approximately 13% in the repayment of bank loans, approximately 6% in the upgrade of information systems for further enhancement of our management ability, approximately 4% in the upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC, approximately 5% in multi-functional mobile internet projects, approximately 9% as working capital and for general corporate purpose and approximately 9% in the payment of listing agency fees. The applications of our proceeds as at 30 June 2019 are set out in the following table:

Items	Amount paid HK\$'000	Percentage
Expansion of retail and distribution network	472,414.94	53.66%
Repayment of bank loans	118,703.28	13.48%
Upgrade of information system to further improve management capability	55,584.09	6.31%
Upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC	34,472.32	3.92%
Undertaking multi-functional mobile internet projects	44,060.18	5.01%
Working capital and other general corporate purpose	79,528.85	9.03%
Payment of listing agency fees	75,567.90	8.59%
Total	880,331.56	100.00%

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

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

(X) Foreign exchange rate risks

The Group's businesses are primarily located in Mainland China and the majority of transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group's exposure to foreign currency risk relates to the Group's bank deposits and other receivables denominated in USD, EUR, HKD, Indian Rupee and Bangladesh Taka. The Group has not hedged its foreign exchange rate risk.

(XI) Pledge of assets

As of 30 June 2019, the Group had no other pledge of assets except for the pledged deposits amounting to RMB1,047,925,200 and pledged trade receivables amounting to RMB26,181,310.

(XII) Material investments

The written resolution of the third session of the Board of the Company reviewed and approved the proposal of the Company to adjust the investment plan to China Ocean Intelligent Equipment Manufacturing (Shenzhen) Company Limited (the “**China Ocean Intelligent**”). The Company will hold 15% of the equity interests in China Ocean Intelligent by way of equity transfer of RMB7,500,000. After the completion of the equity transfer, the Company will invest RMB35,500,000 to subscribe for China Ocean Intelligent's newly increased registered capital of RMB35,500,000. After the completion of the capital increase, the Company will hold China Ocean Intelligent's 50.3% equity interests.

Save as disclosed above, for the six months ended 30 June 2019, the Group had no other material investment.

(XIII) Equity arrangements

For the six months ended 30 June 2019, no equity subscription was conducted by the Group. As of the date of this report, no equity scheme was made by the Group.

(XIV) Capital

No material change occurred in the capital structure of the Company since the date of listing.

(XV) Material events after the period

1. On 15 July 2019, the Company and some of the management members of three subsidiaries of the Company located in Shanghai (the “**Transferees**”) entered into the equity transfer agreements respectively, pursuant to which, the Company agreed to dispose of and the Transferees agreed to purchase 25% of the equity interests in each of the three subsidiaries for a consideration of RMB70,000,000 in total. For details, please refer to the announcement and the supplemental announcement of the Company dated 15 July 2019 and 30 August 2019, respectively.
2. On 26 July 2019, the Company entered into a joint venture agreement with Suqian Jiashi Information Technology Co., Ltd. (“**Suqian Jiashi**”) to establish a joint venture company by joint capital contribution, aiming at building up the strength of both parties in the business fields including capital finance, warehousing and cloud services, thereby improving the efficiency and reducing operating costs. Pursuant to the joint venture agreement, the registered capital of the joint venture company is proposed to be RMB400,000,000, of which RMB196,000,000 is to be contributed by the Company, representing 49% of the registered capital; and RMB204,000,000 is to be contributed by Suqian Jiashi, representing 51% of the registered capital. For details, please refer to the announcement of the Company dated 26 July 2019. On 2 September 2019, the formation of the joint venture company, Beijing Digital Science & Technology Co., Ltd, was approved by the branch of Beijing Economic-Technological Development Area of Beijing Administration for Industry and Commerce.
3. On 26 July 2019, the Company entered into a share subscription agreement with Nelson Innovation Limited (the “**Subscriber**”), pursuant to which the Company has conditionally agreed to issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for 65,793,400 subscription shares in aggregate at the subscription price of HK\$3.25 per subscription share. Pursuant to the share subscription agreement, the total number of 65,793,400 subscription shares to be issued represents 20% of the existing number of issued H Shares of the Company, and approximately 9.87% of the existing number of issued shares of the Company as at 26 July 2019. Completion of this subscription is subject to certain conditions precedent agreed in the subscription agreement, and therefore is still subject to uncertainties. For details, please refer to the announcement of the Company dated 26 July 2019.

As at the date of this report, the equity transfer and the subscription of shares mentioned above have not completed.

(XVI) Employees and remuneration policy

As at 30 June 2019, the Group had a total of 5,792 employees. Salary costs and employees’ benefit expenses were approximately RMB247,437,160 for the six months ended 30 June 2019. Remunerations for the Company’s existing employees include salaries, performance-based bonus, social insurance and housing provident fund. The Company has also arranged various trainings for employees, including professional qualification training, product and business information training, and management skills training, which are conducted mainly through online learning, seminars and conferences and skill-specific training programs.

III. BUSINESS OUTLOOK FOR THE SECOND HALF OF 2019

For the year of 2019, the 4G communications market is almost saturated, and it is expected that less consumers will have intention to buy new mobile handsets. The commercialization of 5G technology is going to be put on the agenda, which will bring an unstoppable new trend to the retail market. Facing such changes in the market, we have to enhance the Company's performances with the focus on the following aspects:

(I) To prioritize the improvement on the profitability of the physical retail outlets

On the one hand, we shall increase the profitability in existing outlets by provision of training to our staff, negotiation of rental reduction and cooperation with manufacturers. On the other hand, we shall open exclusive stores at county level through cooperation with manufacturers and open more franchise outlets in suitable cities at county level in order to increase our sales scale in the market.

(II) To develop our offline physical outlets steadily and at the same time continue to increase the proportion of our online business in order to further realize the integration of our online to offline ("OTO") business

In 2019, we shall also take advantage of the competitive edges of our geographical coverage. By leveraging on various means, such as our official website, mobile stores, credit card mall and Tmall's flagship stores, we can provide service through integration of online and offline business stream, so as to realize the integration and development of our OTO business.

(III) To enhance our cooperation with three major mobile carriers

On the one hand, we shall jointly operate our outlets with the mobile carriers. On the other hand, we shall tap into communities and the wholesale market through our mobile points of sale for the development of our contract business, sales of mobile handsets and accessories and provision of communication services for the convenience of the public.

To support China Mobile Group's Internet of Things ("IOT") strategy, significant efforts will be made to develop and apply new business and expand the sales and service business of unmanned flying vehicles.

(IV) To enhance value of the Group's own brand by capturing the optimal growth period of IOT

During the first year of 5G in 2019, the IOT segment and market have undergone a rapid development. As the earliest communication digital channel entering the IOT segment, we will, on the one hand, continue to enrich our IOT products and increase its revenue to over 50%. On the other hand, we will actively cooperate with integrated brands, such as Huawei and Xiaomi, and smart trendy brands, such as BOSS, to become a core channel of their offline expansion. Furthermore, we cooperated with content platforms such as NetEase Games that have many brand IP resources to enhance public awareness of the sale of IOT products by Beijing Digital channels through joint marketing activities and the introduction of IP-based trendy products. Until the competitive landscape is settled down, by leveraging on the sales capabilities of our self-owned and franchise outlets and our own distribution capabilities, we are committed to developing a IOT self-owned brand in 2019 and capturing market share, so as to realize the growth both on our scale and effectiveness.

(V) To improve our services quality and enhance brand influence

In 2016, we introduced customer service hotline with dedicated staff solving the problems our end users might face. Our concept of “full-hearted loyalty” has been well received by our large amount of customers and has accumulated a large number of fans of Beijing Digital. In 2017, we opened a dedicated customer services and call center to fulfill the after-sale demand from our customers to the greatest extent. In 2019, we shall continue to intensively pursue the “full-hearted loyalty” concept in order to enhance our prestige and reputation through provision of quality services, so as to enhance the Group’s brand influence and ultimately achieve sales growth.

(VI) To continue expanding overseas mobile business

In 2018, we cooperated with Transsion Holdings to achieve satisfactory results in African market and our market shares have gradually increased. We will continue to enhance our competitive edges in 2019. In 2018, we entered into the Western Europe market, becoming the largest Mi Homes (小米之家) operator in Spain with outstanding profit performance. In the second half of 2019, we will strengthen our distribution and retail business in Thailand based on our existing foundation thereof and are committed to becoming an influential communication chain distributor in Thailand.

(VII) To actively introduce a new retail concept in the mobile & smart & trendy retail industry and to start a new retail revolution focused on customer experience under the new retail transformation

From 2017 to date, we have established new D.Phone UP+ stores in landmark shopping malls over 10 cities, including Beijing, Shanghai, Chongqing and Xi’an. By leveraging on differentiable, fashionable, thematic, interesting, humanized, entertaining, daily-used and smart products, traditional retail stores were improved and upgraded to provide enjoyable experience for our customers. In 2019, while continuing to explore UP+ development opportunities in second-tier cities, we will also upgrade the core street stores in 2019. On the one hand, the stores will be rearranged by their categories while over half of them will be used to present IOT products and trendy products as well as provide our customers with comprehensive services. On the other hand, the overall design and style of our stores will become cleaner and more stylish by combining aesthetic standards of the 80s, 90s and 00s generations, so as to enhance the shopping experience of our customers in every detail.

(VIII) To implement our strategies in all channels

We will establish a standardised platform that can achieve our objective of bringing our staff, products, customers and management online to realize online and offline full integration. In this regard, we will develop a middle stage system consisting of business and data middle stage, establishing “a large middle stage and a small front stage”. In respect of the frontline system, we will team up with Tencent to carry out strategic cooperation. By the end of 2019, with WeChat Work as the foundation, WeChat traffic as support and the business process of Beijing Digital as the blueprint, we will formulate a smart retail integrated solution for the digital communication industry, and materialize the seamless contact between corporate staff and customers, in order to truly consummate our full-channel strategy.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend interim dividend for the six months ended 30 June 2019.

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

As at 30 June 2019, the interests and short positions of the Directors, the supervisors of the Company (the “**Supervisors**”) and chief executives of the Company (the “**Chief Executives**”) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to 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**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) were as follows:

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

Notes:

- The percentage is calculated with the number of the relevant class of shares of the Company issued as at date of this interim report divided by the total number of shares.
- Beijing Di Er Tong Consulting Company Limited (北京迪爾通諮詢有限公司, “**Di Er Tong**”) and Digital Science & Technology Group Limited (迪信通科技集團有限公司, “**Digital Science & Technology**”), directly hold 101,300,000 domestic shares and 211,400,000 domestic shares of the Company respectively, and Liu Donghai, Liu Hua, Liu Songshan, Liu Wencui and Liu Yongmei respectively hold 34.89%, 5.13%, 52.33%, 2.52% and 5.13% interests in Di Er Tong; Liu Donghai, Liu Hua, Liu Wencui, Liu Yongmei and Liu Wenli respectively hold 84.72%, 5.06%, 3.93%, 5.06% and 1.23% interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Liu Donghai and Liu Wencui are deemed to be interested in 101,300,000 domestic shares and 211,400,000 domestic shares held by Di Er Tong and Digital Science & Technology respectively, and Liu Songshan is deemed to be interested in 101,300,000 domestic shares held by Di Er Tong.
- Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司, “**Rong Feng Tai**”) directly holds 7,500,000 domestic shares of the Company, and Liu Wencui holds 66.27% interests in Rong Feng Tai. Accordingly, pursuant to the SFO, Liu Wencui is deemed to be interested in 7,500,000 domestic shares held by Rong Feng Tai.

OTHER INFORMATION *(Continued)*

Save as disclosed above, as at 30 June 2019, none of the Directors, the Supervisors and the Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2019, to the knowledge of the Directors, the following persons (other than the Directors, the Supervisors and the Chief Executives) had interests or short positions in the shares or underlying shares of the Company which fell to be noticed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Type of Shares	Nature of Interests	Number of shares/ underlying shares held (long position/ short position/ lending pool)	Percentage of the relevant class of share capital (%) (Note 1)	Percentage of the total share capital (%) (Note 1)
Liu Yongmei (Note 2)	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	46.90
Liu Hua (Note 2)	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	46.90
Liu Wenli (Note 2)	Domestic shares	Interest of controlled corporation	211,400,000 (long position)	62.60	31.71
Di Er Tong (Note 2)	Domestic shares	Beneficial owner	101,300,000 (long position)	30.00	15.19
Digital Science & Technology (Note 2)	Domestic shares	Beneficial owner	211,400,000 (long position)	62.60	31.71
Lenovo Group Limited	H shares	Beneficial owner	32,435,500 (long position)	9.86	4.87
Digital China Group Co., Ltd. ("Digital China Group") (Note 3)	H shares	Interest of controlled corporation	158,350,000 (long position)	48.14	23.75
Digital China (China) Limited ("Digital China (China)") (Note 3)	H shares	Interest of controlled corporation	158,350,000 (long position)	48.14	23.75
Digital China (HK) Limited ("Digital China") (Note 3)	H shares	Beneficial owner	158,350,000 (long position)	48.14	23.75
Dawn Galaxy International Limited	H shares	Beneficial owner	42,000,000 (long position)	12.77	6.30

OTHER INFORMATION (Continued)

Notes:

1. The percentage is calculated with the number of the relevant class of shares of the Company issued as at date of this interim report divided by the total number of shares.
2. Di Er Tong and Digital Science & Technology directly hold 101,300,000 domestic shares and 211,400,000 domestic shares of the Company respectively, Liu Yongmei and Liu Hua hold controlling interests in Di Er Tong and Digital Science & Technology, and Liu Wenli holds controlling interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Liu Yongmei and Liu Hua are deemed to be interested in 101,300,000 domestic shares and 211,400,000 domestic shares held by Di Er Tong and Digital Science & Technology respectively, and Liu Wenli is deemed to be interested in 211,400,000 domestic shares held by Digital Science & Technology.
3. Digital China directly holds 158,350,000 H shares of the Company, and Digital China Group holds 100% interests of Digital China through Digital China (China), its wholly-owned subsidiary. Accordingly, pursuant to the SFO, Digital China Group and Digital China (China) are deemed to be interested in 158,350,000 H shares held by Digital China.

Save as disclosed above, as of 30 June 2019, there was no other person (other than the Directors, the Supervisors and the Chief Executives) to the Directors' knowledge who had interests or short positions in the shares or underlying shares of the Company which fell to be noticed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or which have been recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the six months ended 30 June 2019 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors or the Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company, and none of the Directors or the Supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or had exercised any such right.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. During the six months ended 30 June 2019, save as disclosed in this report, the Company has complied with all the code provisions of the CG Code and adopted most of the recommended best practice set out therein.

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



OTHER INFORMATION *(Continued)*

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' and Supervisors' securities transactions. Specific enquiries have been made to all Directors and Supervisors, each Director and Supervisor has confirmed that they have complied with the standards for securities transactions of Directors set out in the Model Code during the six months ended 30 June 2019.

During the six months ended 30 June 2019, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standards set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

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

During the six months ended 30 June 2019, neither the Company nor its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Board has established an audit committee (the "**Audit Committee**") which comprises three independent non-executive Directors, namely Mr. Zhang Senquan (chairman), Mr. Lv Pingbo and Mr. Lv Tingjie.

The Audit Committee, together with the management of the Company and the external auditor, has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Mr. Bian Yongzhuang resigned as independent non-executive Director, chairman of Remuneration and Assessment Committee, member of Audit Committee and member of Nomination Committee due to personal development reason with effect from 5 June 2019. Mr. Lv Pingbo was appointed as independent non-executive Director, chairman of Remuneration and Assessment Committee, member of Audit Committee and member of Nomination Committee. For details, please refer to the Company's announcements dated 28 March 2019 and 5 June 2019 and the circular dated 18 April 2019.

Save as disclosed above, the Directors and the Supervisors have confirmed that there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENT REVIEW REPORT

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 32 to 64, which comprises the condensed consolidated statement of financial position of Beijing Digital Telecom Co., Ltd. and its subsidiaries (the “Group”) as at 30 June 2019 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

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

30 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
	Notes	Unaudited RMB'000	Unaudited RMB'000
CONTINUING OPERATIONS			
REVENUE	4	7,265,420	7,571,478
Cost of sales		(6,421,841)	(6,589,292)
Gross profit		843,579	982,186
Other income and gains	4	40,748	51,311
Selling and distribution costs		(401,873)	(531,950)
Administrative expenses		(143,934)	(169,636)
Impairment losses on financial assets		(32,544)	(15,333)
Other expenses		(29,789)	(23,660)
Finance costs		(120,247)	(96,406)
Share of losses of associates and joint ventures		(2,527)	(3,802)
PROFIT BEFORE TAX	5	153,413	192,710
Income tax expense	6	(28,556)	(38,095)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		124,857	154,615
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation		–	1,847
PROFIT FOR THE PERIOD		124,857	156,462
Attributable to:			
Owners of the parent		137,814	152,655
Non-controlling interests		(12,957)	3,807
		124,857	156,462
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
For profit for the period	7	0.21	0.23
For profit from continuing operations	7	0.21	0.23

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2019

	<i>Notes</i>	For the six months ended 30 June	
		2019 Unaudited RMB'000	2018 Unaudited RMB'000
PROFIT FOR THE PERIOD		124,857	156,462
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Share of other comprehensive income/(loss) of a joint venture		202	(547)
Exchange differences on translation of foreign operations		(454)	1,543
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>			
Net (loss)/gain on investments at fair value through other comprehensive income		(898)	152
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(1,150)	1,148
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		123,707	157,610
Attributable to:			
Owners of the parent		136,798	153,372
Non-controlling interests		(13,091)	4,238
		123,707	157,610

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

		30 June 2019	31 December 2018
	Notes	Unaudited RMB'000	Audited RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	120,907	130,744
Right-of-use assets		579,474	—
Goodwill		68,119	72,646
Other intangible assets		8,158	7,492
Investments in joint ventures		76,331	74,313
Investments in associates		36,717	37,114
Debt instrument at amortised cost		500	—
Equity investments designated at fair value through other comprehensive income		40,516	41,713
Deferred tax assets		46,953	40,892
Loan receivables		—	16,472
Total non-current assets		977,675	421,386
CURRENT ASSETS			
Inventories	9	2,535,950	2,541,787
Trade and bills receivables	10	2,597,277	2,172,337
Prepayments, other receivables and other assets		1,746,898	1,331,443
Loan receivables		—	40,640
Due from the controlling shareholder		—	35,000
Due from related parties		83,253	168,711
Pledged deposits	11	1,047,925	660,251
Cash and cash equivalents	11	518,439	708,548
Total current assets		8,529,742	7,658,717
CURRENT LIABILITIES			
Trade and bills payables	13	725,267	484,876
Other payables and accruals		276,958	341,922
Interest-bearing bank and other borrowings	12	3,596,590	3,066,638
Lease liabilities		223,752	—
Due to related parties		30,074	4,253
Tax payable		372,589	348,709
Total current liabilities		5,225,230	4,246,398
NET CURRENT ASSETS		3,304,512	3,412,319
TOTAL ASSETS LESS CURRENT LIABILITIES		4,282,187	3,833,705
NON-CURRENT LIABILITIES			
Lease liabilities		322,661	—
NET ASSETS		3,959,526	3,833,705

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

30 June 2019

		30 June 2019	31 December 2018
	<i>Notes</i>	Unaudited RMB'000	Audited RMB'000
EQUITY			
Equity attributable to owners of the parent:			
Issued capital	14	666,667	666,667
Reserves		3,230,461	3,093,663
		3,897,128	3,760,330
Non-controlling interests		62,398	73,375
TOTAL EQUITY		3,959,526	3,833,705

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the parent						Total	Non-controlling interests	Total equity
	Issued capital	Capital reserve	Statutory reserve funds	Retained profits	Fair value reserve	Exchange fluctuation reserve			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2019:									
As at 31 December 2018 (as audited)	666,667	524,953	276,615	2,291,864	651	(420)	3,760,330	73,375	3,833,705
Profit for the period	–	–	–	137,814	–	–	137,814	(12,957)	124,857
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	–	–	–	–	–	(320)	(320)	(134)	(454)
Net loss on investments at fair value through other comprehensive income	–	–	–	–	(898)	–	(898)	–	(898)
Share of other comprehensive income of a joint venture	–	–	–	–	–	202	202	–	202
Total comprehensive income for the period	–	–	–	137,814	(898)	(118)	136,798	(13,091)	123,707
Acquisition of subsidiaries	–	–	–	–	–	–	–	2,114	2,114
As at 30 June 2019 (Unaudited)	666,667	524,953	276,615	2,429,678	(247)	(538)	3,897,128	62,398	3,959,526

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2018

	Attributable to owners of the parent							Non-controlling interests	Total equity	
	Issued capital	Capital reserve	Statutory reserve funds	Retained profits	Fair value reserve	Exchange fluctuation reserve	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
Six months ended 30 June 2018:										
As at 31 December 2017 (as previously reported)	666,667	524,953	243,661	1,996,853	–	(1,075)	3,431,059	80,283	3,511,342	
Impact of adopting IFRS 15 and IFRS 9	–	–	–	(1,571)	(950)	–	(2,521)	–	(2,521)	
As at 31 December 2017 (as restated)	666,667	524,953	243,661	1,995,282	(950)	(1,075)	3,428,538	80,283	3,508,821	
Profit for the period	–	–	–	152,655	–	–	152,655	3,807	156,462	
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	–	1,112	1,112	431	1,543	
Net gain on investments at fair value through other comprehensive income	–	–	–	–	152	–	152	–	152	
Share of other comprehensive loss of a joint venture	–	–	–	–	–	(547)	(547)	–	(547)	
Total comprehensive income for the period	–	–	–	152,655	152	565	153,372	4,238	157,610	
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	40,000	40,000	
Acquisition of a subsidiary	–	–	–	–	–	–	–	(6,552)	(6,552)	
As at 30 June 2018 (Unaudited)	666,667	524,953	243,661	2,147,937	(798)	(510)	3,581,910	117,969	3,699,879	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax:		
From continuing operations	153,413	192,710
From a discontinued operation	–	1,847
Adjustments for:		
Finance costs	120,247	96,814
Interest income from loan receivables and others	(592)	(12,245)
Share of losses of joint ventures and associates	2,527	3,802
Gain on disposal of a subsidiary	(2,580)	–
Loss on disposal of an associate	2,785	–
Gain on acquisition of subsidiaries	(1,929)	–
Provision for impairment of trade receivables	13,629	11,083
Provision for impairment of amounts due from related parties	47	319
Provision for impairment of financial assets at fair value through other comprehensive income	1,527	–
Provision for impairment of other receivables	841	3,933
Provision for impairment of inventories	18,144	21,100
Provision for impairment of other intangible assets	2,356	–
Provision for impairment of goodwill	4,527	–
Provision for impairment of loan receivables	16,499	–
Depreciation of property, plant and equipment	26,871	30,654
Depreciation of right-of-use assets	112,438	–
Amortisation of intangible assets	767	194
Loss on disposal of property, plant and equipment	928	1,137
Exchange differences on translation of foreign operations	(512)	689
Increase in trade and bills receivables	(441,136)	(212,395)
Increase in prepayments, other receivables and other assets	(448,031)	(167,751)
Increase in inventories	(13,807)	(40,144)
Decrease in properties under development	–	69,592
Decrease in completed properties held for sale	–	7,652
Increase/(decrease) in trade and bills payables	235,596	(34,236)
Decrease in other payables and accruals	(48,455)	(77,023)
Decrease/(increase) in amounts due from related parties	85,411	(4,833)
Increase in amounts due to related parties	7,506	885
Cash used in operations	(150,983)	(106,216)
Income tax paid	(11,188)	(15,165)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(162,171)	(121,381)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries	786	14
Purchases of items of property, plant and equipment	(21,808)	(26,373)
Purchases of items of other intangible assets	(789)	(56)
Proceeds from sales of property, plant and equipment	3,612	597
Acquisition of interests of an associate and a joint venture	(6,731)	–
Repayment/(advances) of loans to third parties	40,640	(13,695)
Purchases of investments at fair value through other comprehensive income	–	(15,000)
Interest received	4,364	543
Disposal of a subsidiary	35,000	–
Disposal of an interest in an associate	6,000	–
Purchase of a debt instrument	(500)	–
Prepayment arising from investments	(6,800)	–
Decrease in investments in financial products by banks	–	188,490
NET CASH FLOWS FROM INVESTING ACTIVITIES	53,774	134,520
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	3,685,030	3,686,882
Loan from a related party	18,315	–
Capital contribution from non-controlling shareholders	–	40,000
(Increase)/decrease in pledged deposits	(389,217)	6,511
Repayment of bank loans	(3,156,046)	(3,657,908)
Principal portion of lease payments	(97,616)	–
Interest paid	(142,210)	(118,592)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(81,744)	(43,107)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(190,141)	(29,968)
Cash and cash equivalents at beginning of period	708,548	614,879
Effect of foreign exchange rate changes, net	32	30
CASH AND CASH EQUIVALENTS AT END OF PERIOD	518,439	584,941

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRS") effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	<i>Annual Improvements 2015-2017 Cycle</i>

Other than as explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(a) Adoption of IFRS 16

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of IFRS 16 (Continued)

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liability separately in the statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

30 June 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)**(a) Adoption of IFRS 16 (Continued)***As a lessee – Leases previously classified as operating leases (Continued)**Impacts on transition (Continued)*

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease;

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	649,515
Decrease in prepayments, other receivables and other assets	(47,883)
Increase in total assets	601,632
Liabilities	
Increase in lease liabilities	601,632
Increase in total liabilities	601,632
Decrease in retained earnings	–

30 June 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)**(a) Adoption of IFRS 16 (Continued)***As a lessee – Leases previously classified as operating leases (Continued)**Impacts on transition (Continued)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	703,201
Weighted average incremental borrowing rate as at 1 January 2019	4.93%
Discounted operating lease commitments as at 1 January 2019	551,522
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	14,700
Commitments relating to leases of low-value assets	–
Add: Payments for optional extension periods not recognised as at 31 December 2018	64,810
Lease liabilities as at 1 January 2019	601,632

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) Adoption of IFRS 16 (Continued)

Summary of new accounting policies (Continued)

Lease liabilities

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

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

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease property for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of property due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

30 June 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)**(a) Adoption of IFRS 16 (Continued)**

Amounts recognised in the interim condensed consolidated statements of financial position, profit or loss and other comprehensive income

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movements during the period are as follows:

	Right-of-use Assets Properties RMB'000	Lease liabilities RMB'000
As at 1 January 2019	649,515	601,632
Additions	42,397	42,391
Depreciation charge	(112,438)	–
Interest expense	–	13,363
Payments	–	(110,973)
As at 30 June 2019	579,474	546,413

The Group recognised rental expenses from short-term leases of RMB20,835,000 and variable lease payments not based on index or rate of RMB8,301,000 for the six months ended 30 June 2019.

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group’s interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the sale of mobile telecommunications devices and accessories.

Management monitors the Group’s operating results of its business as a whole for the purpose of making decisions about resource allocation and performance assessment.

Information about major customers

During the reporting period, the Group had no customers from whom the revenue was earned individually accounted for more than 10% of the Group’s total revenue for the reporting period.

Seasonality of operations

Due to the seasonal nature, higher revenues and operating profits are usually expected in the second half of the year rather than in the first six months. Higher sales during the period from July to the early of October are mainly attributed to the increased demand for mobile telecommunications devices and accessories during the holiday season, as well as in November and December, due to increased demand for new series of mobile telecommunications devices. This information is provided to allow for a better understanding of the results, however, management has concluded that the Group’s business is not “highly seasonal” in accordance with IAS 34.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

4. REVENUE, OTHER INCOME AND GAINS

(a) Revenue

An analysis of revenue is as follows:

Segments

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Type of goods or services		
Sales of mobile telecommunications devices and accessories	7,036,106	7,224,032
Including:		
Retail of mobile telecommunications devices and accessories	3,623,864	3,838,884
Sales of telecommunications devices and accessories to franchisees	1,382,631	1,412,093
Wholesale of mobile telecommunications devices and accessories	2,029,611	1,973,055
Service income from mobile carriers	181,478	296,253
Other service fee income	47,836	51,193
	<hr/>	<hr/>
Total revenue from contracts with customers	7,265,420	7,571,478
	<hr/>	<hr/>
Geographical markets		
Mainland China	7,186,435	7,571,478
India	4,433	—
Spain	73,059	—
Bangladesh	1,493	—
	<hr/>	<hr/>
Total revenue from contracts with customers	7,265,420	7,571,478
	<hr/>	<hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

4. REVENUE, OTHER INCOME AND GAINS (Continued)

(a) Revenue (Continued)

Segments (Continued)

	For the six months ended 30 June	
	2019	2018
	Unaudited RMB'000	Unaudited RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	7,036,106	7,224,032
Services transferred over time	229,314	347,446
Total revenue from contracts with customers	7,265,420	7,571,478

(b) Other income and gains

	For the six months ended 30 June	
	2019	2018
	Unaudited RMB'000	Unaudited RMB'000
Other income		
Interest income	8,095	26,231
Government grants (note (a))	23,226	22,941
Others	4,918	2,139
	36,239	51,311
Gains		
Gain on acquisition of subsidiaries	1,929	—
Gain on disposal of a subsidiary	2,580	—
	4,509	—
	40,748	51,311

Note (a): The amount represents grants received from local PRC government authorities by the Group's subsidiaries in connection with certain financial subsidies and tax refunds to support local businesses. There are no unfulfilled conditions and other contingencies attached to the government grants.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Cost of inventories sold and services provided	6,421,841	6,589,292
Depreciation of property, plant and equipment	26,871	30,646
Amortisation of intangible assets	767	194
Depreciation of right-of-use assets	112,438	–
Lease payments	29,136	190,167
Interest on lease liabilities	13,363	–
Auditors' remuneration	1,996	2,578
Employee benefit expense (including directors' remuneration)		
– Wages and salaries	198,761	210,828
– Pension scheme contributions	28,605	31,643
	227,366	242,471
Provision for impairment of trade receivables	13,629	11,081
Provision for impairment of amounts due from related parties	47	319
Provision for impairment of other receivables	841	3,933
Provision for impairment of inventories	18,144	21,100
Provision for impairment of financial assets at fair value through other comprehensive income	1,527	–
Provision for impairment of goodwill	4,527	–
Provision for impairment of loan receivables	16,499	–
Provision for impairment of other intangible assets	2,356	–
Loss on disposal of property, plant and equipment	928	1,137

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

6. INCOME TAX

The provision for current income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which became effective on 1 January 2008. The major components of income tax expense are as follows:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Current:		
Charge for the period	35,068	42,402
Deferred tax	(6,512)	(4,307)
Total tax charge for the period from continuing operations	28,556	38,095
Total tax charge for the period from a discontinued operation	—	—
	28,556	38,095

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the reporting periods.

The Group had no potentially dilutive ordinary shares in issue during the reporting periods. The calculation of basic earnings per share is based on:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation:		
From continuing operations	137,814	151,500
From a discontinued operation	—	1,155
	137,814	152,655
Shares		
Weighted average number of ordinary shares	666,667,000	666,667,000

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment at a cost of RMB21,808,000 (for the six months ended 30 June 2018: RMB26,373,000).

Property, plant and equipment with a net book value of RMB4,549,000 were disposed of by the Group during the six months ended 30 June 2019 (for six months ended 30 June 2018: RMB1,734,000), resulting in a net loss on disposal of RMB928,000 (for the six months ended 30 June 2018: a net loss of RMB1,137,000).

9. INVENTORIES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Merchandise for resale	2,552,610	2,563,682
Consumable supplies	1,484	770
Less: provision against inventories	(18,144)	(22,665)
	2,535,950	2,541,787

10. TRADE AND BILLS RECEIVABLES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade receivables	2,669,643	2,278,015
Bills receivable	49,204	2,389
Less: provision for impairment of trade receivables	(121,570)	(108,067)
	2,597,277	2,172,337

The Group grants different credit periods to customers. The Group's retail sales to consumers are cash sales. Credit periods are offered to customers of volume sales of telecommunications devices and accessories. The credit periods offered to unincorporated customers are considered on a case-by-case basis. The Group maintains strict control over and closely monitors its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are unsecured and non-interest-bearing.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

10. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of the balance of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Within 90 days	2,441,595	2,016,782
91 to 180 days	69,414	66,324
181 to 365 days	42,807	50,185
Over 1 year	43,461	39,046
	2,597,277	2,172,337

11. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

For the purpose of the interim condensed statement of cash flows, cash and cash equivalents are comprised of the following:

	For the six months ended 30 June 2019 Unaudited RMB'000	2018 Unaudited RMB'000
Cash and bank balances	518,439	584,941
Time deposits	1,047,925	946,910
	1,566,364	1,531,851
Less: pledged time deposits		
pledged for bank borrowings	807,105	927,941
pledged for bank acceptance notes	239,120	18,969
Other pledged deposits	1,700	—
	1,047,925	946,910
Cash and cash equivalents, denominated in RMB	518,439	584,941

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

		30 June 2019	31 December 2018
	Notes	Unaudited RMB'000	Audited RMB'000
Bank loans:			
Unsecured, repayable within one year	(a)	1,031,966	950,500
Secured, repayable within one year		1,923,540	1,411,990
Corporate bond:			
Current portion	(b)	575,981	598,013
Other loans:			
Unsecured, repayable within one year	(c)	65,103	71,551
Secured, repayable within one year		—	34,584
		3,596,590	3,066,638

Note (a): The bank loans bear interest at rates ranging from 2.20% to 6.53% (31 December 2018: 3.40% to 6.90%) per annum.

Note (b): On 5 April 2017, the Company issued a corporate bond with maturity of three years in an aggregate amount of RMB600,000,000, which bears interest at 7.50% per annum. The interest is payable annually in arrears and the maturity date is 5 April 2020. The terms of the bond were attached with the Company's option to adjust the coupon rate and the option for investors to sell back at the end of the second year.

Note (c): The unsecured other loans bear interest at a rate of 12.24% per annum.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

13. TRADE AND BILLS PAYABLES

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Trade payables	290,567	327,359
Bills payable	434,700	157,517
	<u>725,267</u>	<u>484,876</u>

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Within 90 days	696,771	308,797
91 to 180 days	15,202	160,858
181 to 365 days	9,981	11,467
Over 1 year	3,313	3,754
	<u>725,267</u>	<u>484,876</u>

14. ISSUED CAPITAL

	30 June 2019 Unaudited RMB'000	31 December 2018 Audited RMB'000
Registered, issued and fully paid: 666,667,000 ordinary shares of RMB1 each	<u>666,667</u>	<u>666,667</u>

30 June 2019

15. BUSINESS COMBINATIONS**Acquisition of Beijing Penglu Network Technology Co., Ltd.**

On 24 April 2019, the Group acquired a 51% interest in Beijing Penglu Network Technology Co., Ltd. (“Penglu Network”) from a third party. Penglu Network is engaged in online retail and IT technology development. The acquisition was made as part of the Group’s strategy to expand its online sales of mobile telecommunications devices and accessories. The purchase consideration of RMB1,020,000 for the acquisition was in the form of cash.

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

	Fair value recognised on acquisition RMB’000 (Unaudited)
Cash and cash equivalents	1,806
Prepayments, deposits and other receivables	16,826
Inventory	143
Trade and bills payables	(6,810)
Other payables and accruals	(8,833)
	<hr/>
Total identifiable net assets at fair values	3,132
Non-controlling interests	(1,535)
	<hr/>
Total net assets acquired	1,597
Gain on acquisition	(577)
	<hr/>
	1,020
	<hr/>
Satisfied by:	
Cash	1,020
	<hr/>

The fair values of the other receivables as at the date of acquisition approximate to their gross contractual amounts. None of these receivables are expected to be uncollectible.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

15. BUSINESS COMBINATIONS (Continued)

Acquisition of Shenzhen Mizuan Network Technology Co., Ltd.

On 30 May 2019, the Group acquired a 70% interest in Shenzhen Mizuan Network Technology Co., Ltd. ("Shenzhen Mizuan") from a third party. Shenzhen Mizuan is engaged in the after-sales service market of mobile telecommunications devices and other electronic devices. The acquisition was made as part of the Group's strategy to expand its business chain in the market of mobile telecommunications devices and accessories. The purchase consideration of RMB7 for the acquisition was in the form of cash.

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

	Fair value recognised on acquisition RMB'000 (Unaudited)
Property, plant and equipment	4
Other intangible assets	3,000
Deferred tax liabilities	(750)
Other payables and accruals	(323)
	<hr/>
Total identifiable net assets at fair values	1,931
Non-controlling interests	(579)
	<hr/>
Total net assets acquired	1,352
Gain on acquisition	(1,352)
	<hr/>
	—
	<hr/>
Satisfied by:	
Cash*	—
	<hr/>

* The purchase consideration in the form of cash was RMB7, which was rounded to nil thousand for presentation.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

16. DISPOSAL OF A SUBSIDIARY

	2019 RMB'000
Net assets disposed of:	
Property, plant and equipment	237
Inventories	1,643
Trade and bills receivables	1,040
Prepayments, other receivables and other assets	4,249
Trade and bills payables	(2,015)
Accruals and other payables	(2,734)
	<u>2,420</u>
Gain on disposal of subsidiaries	<u>2,580</u>
	<u>5,000</u>
Satisfied by:	
Cash	—
Cash consideration unreceived	<u>5,000</u>
	<u>5,000</u>

17. COMMITMENTS

At the end of the reporting period, the Group had no significant capital commitments.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

18. RELATED PARTY TRANSACTIONS

- (a) The following table illustrates the total amounts of transactions that have been entered into with related parties during the six months ended 30 June 2019 and 2018, as well as balances with related parties as at 30 June 2019 and 31 December 2018:

		Sales to related parties ⁽ⁱ⁾ RMB'000	Purchases from related parties ⁽ⁱ⁾ RMB'000	Other transactions with related parties RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Controlling shareholder:						
Digital Science & Technology Group Limited	2019	—	—	—	—	—
	2018	—	—	—	35,000	—
Associates:						
Shenzhen Dixin Nuclear Communications Co., Ltd.	2019	—	—	—	507	—
	2018	—	—	—	507	—
Shanghai Dijun Information Technology Co., Ltd.	2019	—	20,893	—	—	2,157
	2018	—	17,716	—	—	—
Beijing Xinyi Technology Co., Ltd. ¹	2019	—	—	—	—	—
	2018	133	708	—	10,964	11
Comservice Commercial Factoring Co., Ltd. ⁶	2019	—	—	57,652	—	18,315
	2018	—	—	—	—	—
Joint ventures:						
Hollard-D.Phone (Beijing) Technology Development Co., Ltd.	2019	—	8,975	—	—	9,498
	2018	—	11,496	—	—	3,950
Guangzhou Zhongqi Energy Technology Co., Ltd.	2019	26,228	8,549	—	60,920	—
	2018	41,846	7,351	—	55,620	—
Yunnan Dphone Investment Co., Ltd.	2019	214	—	—	—	—
	2018	—	—	—	—	—

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

18. RELATED PARTY TRANSACTIONS (Continued)

- (a) The following table illustrates the total amounts of transactions that have been entered into with related parties during the six months ended 30 June 2019 and 2018, as well as balances with related parties as at 30 June 2019 and 31 December 2018: (Continued)

		Sales to related parties ⁽ⁱ⁾ RMB'000	Purchases from related parties ⁽ⁱ⁾ RMB'000	Other transactions with related parties RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Fellow subsidiaries:						
Beijing Dphone Communication Services Co., Ltd. ²	2019	–	30	–	10,793	104
	2018	1,601	–	–	10,653	292
Guang'an Dixin Cloud Communication Technology Co., Ltd. ²	2019	251	–	–	572	–
	2018	106	–	–	276	–
Fushun Shenshang Commercial Real Estate Co., Ltd. ²	2019	–	–	–	–	–
	2018	–	–	–	90,000	–
Gansu Dixin Cloud Communication Technology Co., Ltd. ²	2019	–	–	–	10,439	–
	2018	–	–	–	–	–
Companies significantly influenced by the shareholders						
Beijing Tianxingyuanjing Technology Development Co., Ltd. ³	2019	–	–	–	21	–
	2018	211	–	–	688	–
Luzhou Digital Science & Technology Co., Ltd. ⁴	2019	13	–	–	–	–
	2018	–	–	–	–	–

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

18. RELATED PARTY TRANSACTIONS (Continued)

- (a) The following table illustrates the total amounts of transactions that have been entered into with related parties during the six months ended 30 June 2019 and 2018, as well as balances with related parties as at 30 June 2019 and 31 December 2018: (Continued)

		Sales to related parties ⁽ⁱ⁾	Purchases from related parties ⁽ⁱ⁾	Other transactions with related parties	Amounts owed by related parties	Amounts owed to related parties
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

**Fellow subsidiary of
non-controlling
shareholder**

Beijing Digital China Limited ⁵	2019	—	7	—	1	—
	2018	—	—	—	3	—

¹ In May 2019, the Company disposed of the long-term equity investments in Beijing Xinyi Technology Co., Ltd.

² The investments in the fellow subsidiaries, Beijing Dphone Communication Services Co., Ltd., Guang'an Dixin Cloud Communication Technology Co., Ltd., Fushun Shenshang Commercial Real Estate Co., Ltd. and Gansu Dixin Cloud Communication Technology Co., Ltd. are directly held by the controlling shareholder of the Company.

³ The investment in the entity, Beijing Tianxingyuanjing Technology Development Co., Ltd. is held by Mr. Liu Donghai, the controlling shareholder of the Company and Mr. Jinxin, who was the CEO of the Group before 13 July 2018. They directly and indirectly hold 20.53% equity interests in aggregate and have significant influence over the entity.

⁴ 40% of equity interest in Luzhou Digital Science & Technology Co., Ltd. is held by the controlling shareholder of the Company.

⁵ Beijing Digital China Limited and Digital China (HK) Limited are all controlled by Digital China Group Co., Ltd. Digital China (HK) Limited is the non-controlling shareholder of the Company and holds a 23.75% equity interest of the Company.

⁶ The Group entered into trade receivable factoring arrangements and transferred certain trade receivables to Comservice Commercial Factoring Co., Ltd.. The secured other loans bear interest at rates ranging from 10.95% to 11% and are secured by trade receivables amounting to RMB26,181,310.

Note:

- (i) The transaction prices were determined based on prices on which the Group transacted with independent third party customers and suppliers.

30 June 2019

18. RELATED PARTY TRANSACTIONS (Continued)**(b) Compensation of key management personnel of the Group:**

	For the six months ended 30 June	
	2019	2018
	Unaudited RMB'000	Unaudited RMB'000
Salaries, allowances, bonuses and other expenses	2,047	2,387

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, pledged deposits, loan receivables, trade receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, an amount due from the controlling shareholder, trade and bills payables, financial liabilities included in other payables and accruals and amounts due to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the current portion of interest-bearing loans and other borrowings and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of interest-bearing loans and lease liabilities at the end of each reporting period approximated to their corresponding carrying amounts due to their short-term maturities. The fair values of the non-current portion of lease liabilities has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple, enterprise value to sales ("EV/Sales") multiple, price to sales ("P/Sales") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (Continued)

30 June 2019

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average EV/Sales multiple of peers or average P/Sales multiple of peers	30 June 2019: 0.71 to 2.80 (31 December 2018: 0.58 to 2.55)	5% (31 December 2018: 5%) increase in multiple would result in an increase in fair value of RMB835,000 (31 December 2018: RMB573,000)
		Discount for lack of marketability	30 June 2019: 13% to 25% (31 December 2018: 15% to 20%)	5% (31 December 2018: 5%) increase in discount would result in a decrease in fair value of RMB195,000 (31 December 2018: RMB139,000)

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income	—	—	40,516	40,516
Bills receivable	—	49,204	—	49,204
	—	49,204	40,516	89,720

30 June 2019

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS
(Continued)

Fair value hierarchy (Continued)

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	—	30,000	11,713	41,713
Bills receivable	—	2,389	—	2,389
	—	32,389	11,713	44,102

20. DIVIDENDS

The directors did not propose an interim dividend for the reporting period.

21. EVENTS AFTER THE REPORTING PERIOD

On 15 July 2019, the Company and several key managements of three subsidiaries of the Group located in Shanghai (the “Transferees”) entered into the equity transfer agreements respectively pursuant to which, the Company agreed to dispose of and the Transferees agreed to purchase 25% of the equity interests in each of the three subsidiaries for a consideration of RMB70,000,000 in total.

On 26 July 2019, the Company entered into a joint venture agreement with Suqian Jiashi Information Technology Co., Ltd. (the “Suqian Jiashi”) to establish a company by joint capital contribution aiming at building up the strength of both parties in the business fields including capital finance, warehousing and cloud services, thereby improving the efficiency and reducing operating costs. Pursuant to the above agreement, the registered capital of the investee is proposed to be RMB400,000,000, of which RMB196,000,000 is to be contributed by the Company, representing 49% of the registered capital; and RMB204,000,000 is to be contributed by Suqian Jiashi, representing 51% of the registered capital.

30 June 2019

21. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

On 26 July 2019, the Company entered into a subscription agreement with Nelson Innovation Limited (the “Subscriber”) pursuant to which the Company has conditionally agreed to issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for 65,793,400 subscription shares in aggregate at the subscription price of HK\$3.25 per subscription share. The total number of 65,793,400 subscription shares to be issued represents 20% of the existing number of issued H Shares of the Company, and approximately 9.87% of the existing number of issued shares of the Company as at 26 July 2019.

As at the date of approval of the interim condensed consolidated financial information, the equity transfer, the establishment of joint venture and the issue of shares mentioned above have not been completed.

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information were approved and authorised for issue by the board of directors on 30 August 2019.